

183
**THE PRESIDENT'S BUDGET PROPOSALS
FOR FISCAL YEAR 1994**

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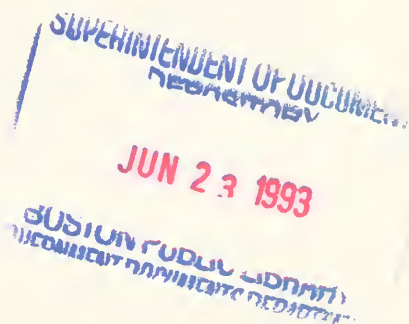
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HEARING
BEFORE THE
COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 18, 1993

Serial No. 103-4

Printed for the use of the Committee on the Budget



U.S. GOVERNMENT PRINTING OFFICE

64-785

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-040691-9

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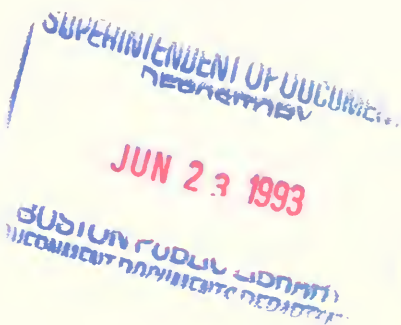
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THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1994

THURSDAY, FEBRUARY 18, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Gephardt, Beilenson, Berman, Wise, Bryant, Stenholm, Frank, Cooper, Slaughter, Parker, Kennelly, Andrews, Mollohan, Gordon, Price, Costello, Johnston, Mink, Orton, Blackwell, Pomeroy, Kasich, McMillan, Kolbe, Shays, Snowe, Herger, Smith of Texas, Cox, Allard, Hobson, Miller, Lazio, Franks, Smith of Michigan, Inglis, and Hoke.

Chairman SABO. The committee will come to order.

Good morning. Last night the President submitted his proposal for revitalizing the long-term economic future of our Nation. It is now up to us, the members of the House Budget Committee, to review and fully assess the proposal. We will study its components, lend our insight, and make a recommendation to our colleagues and the people we have been elected to represent.

We are honored to have before us today our former colleague, former Chairman, current Director of the Office of Management and Budget, and one of the primary architects of the Clinton economic proposal, Leon Panetta.

Welcome back. Also congratulations for a job well done.

The budget President Clinton presented to the Nation last night was real. We have a budget that provides honesty instead of misdirection, integrity instead of avoidance, and replaces rosy scenarios with realistic expectations.

It is a plan of integrity that includes a short-term economic stimulus significant in real spending cuts, substantial deficit reduction, and the foundation essential for long-term economic growth.

Just as importantly, it achieves these goals with a maximum amount of fairness, calling on those who gained the most throughout the 1980's to contribute the most in the 1990's and beyond.

As the President said, this is a new era of truth in budgeting. The long-term economic security depends on no less than simple honesty. It also depends upon replacing gridlock with action.

President Clinton's budget proposal, the package now before us, gives us our best opportunity to lay the foundation for a strong eco-

conomic future. It is time for the blame to end and for the work to begin.

Mr. Kasich?

Mr. KASICH. Thank you, Mr. Chairman.

I don't have a prepared opening statement, but I would like to make a few observations.

I was very, very excited when Leon was named as the Chairman of the OMB because I felt he would go to the White House, the administration, and really bring to us a change in the way in which government operated.

As I watched Mr. Panetta's suggestions over the last several weeks, the trial balloons that went up and were immediately shot down, I was disappointed. I was furthermore disappointed in what I saw as a trail, really, of broken campaign promises.

We were told we were going to have the deficit under control in 4 years. We were told there would be no new taxes to pay for new programs and now we have a litany of new programs paid for by new taxes.

We were told that there was no understanding that there was a \$50 billion increase in the deficit in August and we have one statement after another from the President indicating that he knew the deficit picture was worsening.

We were told there would be a middle-income tax cut and now we have a middle-income tax increase. Then this morning I came in and had a chance to look on page 22 of the President's "Vision of Change for America" and it took me back to a promise that was made that we would have \$2 in spending cuts for every dollar of increased taxes.

Of course, that was retreated from also as Mr. Panetta and Ms. Rivlin's plans for spending cuts were rejected.

When I look at fiscal year 1994, as hard as this is to believe, in year 1, forgetting about year 2, 3 and 4, in the 1 year we can focus on this morning, there are \$36 billion in revenues and \$2 billion in net deficit reduction. Thirty-six billion dollars in new taxes on the American people and only \$2 billion in net spending reduction.

Let me tell you how you come to that by looking at page 22 in fiscal year 1994. There are \$7 billion cuts in defense discretionary, \$4 billion in cuts for nondefense and \$6 billion out of entitlements, adding up to \$17 billion. You have to offset that, of course, by the stimulus outlays and investment outlays to total \$15 billion. So you have \$17 billion worth of restraints and \$15 billion worth of increased spending, giving you a net spending decrease of \$2 billion. But you have \$46 billion worth of revenue increases and when you back the \$13 billion out from the tax incentives, that gives you \$33 billion.

When you add the social security taxes, \$3 billion, that gives you \$36 billion worth of new taxes and \$2 billion worth of spending restraints.

I never thought that we could see a promise broken to that degree, but that is where we are in fiscal year 1994, and the message to me is Mr. Panetta didn't get his way. Because if he had gotten his way, we probably would have had \$36 billion worth of spending cuts and \$2 billion worth of tax increases.

I want to welcome Mr. Panetta here, but I am bitterly disappointed that you didn't get your way.

This committee on the Republican side is going to be prepared to change this mix in taxes and spending, and let me further say that any proposals that we come up with, as I know the gentleman from California is aware, we will put down that line item, as I have done in the past. We will do it here into the future.

I am sorry that we have to read this plan with such disappointment, but we cannot allow it to go from \$2 in spending cuts for every dollar in increase to a \$36 billion to \$2 billion in taxes versus spending cuts.

Chairman SABO. I recognize our distinguished Majority Leader, also a member of our committee, Mr. Gephardt.

Mr. GEPHARDT. Thank you, Mr. Chairman. It feels strange to be sitting here and looking at Leon Panetta over there, but I am happy to see him there and I think this is a historic moment in our country and I couldn't be happier that we have got someone like Leon doing this extremely important and difficult job at this crossroads in the history of our country.

Leon, I think you did win and I think Bill Clinton made good decisions and I think the American people will win when we pass and put through this package. I don't expect we are going to get a lot of agreement. We will obviously want everybody in the Congress to vote for this package, but we would be in an awful fix in this country if everybody agreed on all these issues.

There are a couple of things I want to say about the budget before we go forward. First, I so much admire the fact that you use CBO figures; the President feels very strongly about that. It is vital that we fight in the Congress about real issues, about priorities, about directions, about whether to fund a program or not, but not to have fights about economic forecasts that are not in sync, not to fight about projections that we may not agree on.

You have put that to rest once and for all by putting all of us on the same wavelength in terms of how we view the economy. As you know, it is the most conservative set of numbers there is and I think that is going to pay us a great benefit.

One of the real problems we have had over the last year is that every time we project a deficit, because we have been overly optimistic, when we finally get out there the deficit is always bigger. People lose faith in the Government's ability to deal with these problems. Now I suspect we are going to have greater deficit reduction than we projected and what will build confidence among all of us is that we can do this and we can get our hands around this problem.

As the President said last night, we are trying to do something. You are trying to do something here that is very difficult and that is to cut the deficit over a long term while we spend on important long-term investments, not consumption, but long-term investments, for the health of this economy.

You are going to see that is why your net deficit reduction in the first year is not what you would like it to be, but if you look at the fourth year numbers, you have real significant cuts and significant net cuts and real significant deficit reduction in this program.

So I think the balance is good. I think it is bold, courageous. I think you have done the right thing and I am excited about this program. I think the American people are excited about it and I hope to help be a part of leading our Congress to vote for this plan, get it on the President's desk and get it done for the good of the country and the good of our future.

Chairman SABO. The floor is yours, Leon.

My understanding is you have until about 1 o'clock.

Mr. PANETTA. That is correct.

Chairman SABO. We may or may not be interrupted by a couple of votes. The floor is yours, a job well done. We are happy to have you back in this room.

STATEMENT OF HON. LEON E. PANETTA, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. PANETTA. Thank you very much for your welcome.

It is a different view from down here, I have to tell you that. I have been up there and I have been down here and I think I would rather be up there.

This has been an unprecedented process that we have gone through in the last few weeks in working with the President to try to confront the economic problems that face this country. I think it is very important for us to understand this is a historic moment and the question is whether both Republicans and Democrats can work together to try to confront what are real problems in our economy.

I think the American people expressed themselves in the November election that something had to be done, that it wasn't good enough just to basically have a status quo approach to the economy. Something had to be done. There were serious problems in our economy, fundamental weaknesses.

They were concerned about the quality of education, the quality of health care, concerned about the quality of our infrastructure, concerned about problems affecting their children, concerned about a lower standard of living.

We all understand what the American dream is all about. As I have mentioned oftentimes, my parents came to this country from Italy as immigrants. Like a lot of immigrants, they came here because of the American dream, that if they worked hard, sacrificed, put some money aside, they could give their children a better life.

We have seen there is tremendous concern now about whether or not our children are going to have a better life. The point is to try to pull America together on both sides, regardless of your views, regardless of how you approach these issues, pull America together as a family to try to roll up our sleeves and confront this problem.

There aren't any easy answers. I think Congressman Gephardt, who I served with when I first came to the Congress, knows there are no easy answers. I wish there were. I am sure the American people wish that there were easy answers to confronting this problem. There are not. There are very tough choices, whether it is on spending cuts or whether it is on revenue increases, there are no easy choices here. But the time has come to deal with these issues honestly and forthrightly. The American people not only expressed

themselves for change. They also said "Shoot straight with us. Tell us the truth, tell us what we have to do. Don't kid us any more about the problems and challenges facing us." So it was in that spirit that we approached this process to try to say this is the truth. These are the choices. It is tough, but let's try to roll up our sleeves and go to work and ensure that our children can have a better life.

I have presented my written testimony and would like to put it into the record. I would like to summarize some of the key elements involved in the plan and then would be happy to answer questions.

As I said, this was very much an unprecedented process. I have sat in a room behind this committee, sat down, sat down with both Republicans and Democrats and walked through every major area of the budget. Over the last few weeks, I have done the same thing with the President and the National Economic Council basically walking through every major area of the budget—defense, nondefense, entitlements, revenues—looking at economic projections and considering every option.

I entered this process by saying you have to put everything on the table. If you enter the process by saying somehow this ought to be exempted or that or this ought to be cut out, we ought not to touch this, you cannot deal with the problems that face this country. So I put everything on the table and every option on the table and walked through it with the President of the United States going through every line item and making decisions. You see before you the President's mark on the budget, which I think is unprecedented in recent history, to have a President do that. It is gratifying because as we sat there every day going through this budget process, long hours, late into the evening, I was convinced that this President brought principles to the table that he believed in deeply and those principles are reflected in the budget that we present to you.

The concerns we tried to address are the concerns that everyone is familiar with and the President touched on in his speech last night. The basic concerns are the short-term weakness in the economy right now. While we obviously have good growth numbers, we are still seeing very slow job growth in the economy. We have an economy that is producing very few jobs at the present time.

We continue to have heavy debt at the household, business and government level. We continue to have very weak financial institutions, a credit crunch that is very real, and as a consequence small businesses are confronting what is still a serious problem in terms of getting adequate capital.

We have an overbuilt commercial real estate area that is still there as a result of some of the tax benefits provided during the 1980's. We have a problem particularly in California with a very weak real estate market.

The problem on defense downsizing is that while we have enacted some of the defense reductions, these reductions are just beginning to hit communities. I can say that personally because in my community, I have a post that is being closed down, but the troops haven't left yet. They will start leaving this year, so you will

continue to see impacts in communities as a result of defense reductions.

Corporate downsizing is continuing to take place. We have seen major corporations with major layoffs continuing to occur. We are seeing smaller tax refunds. One of the tactics used last year was to try to allow people not to have to withhold on their taxes and now they will find themselves on April 15 getting a higher tax requirement as a consequence of that.

The economy still has fundamental problems that have to be addressed. If we sit back and assume that we ought not deal with these problems, we are taking one helluva risk. We have a deficit that everyone is familiar with. Whether you look at infrastructure or education or health care, we know we have serious problems in terms of skills and technology in terms of private investment.

The fiscal deficit I don't have to go into with this group because you know we have a \$4.1 trillion debt, and it is eating us alive in terms of our ability to have resources for the future. So those are the concerns that we tried to address.

I want to stress five major points. First, it is comprehensive. Anything you do to address the economic problems in our society has to be comprehensive. You cannot just deal with one piece of it. You have to deal with all the elements, with the short-term weakness in the economy, with the investment deficit, and you have to deal with the fiscal deficit as well. So please look at this plan as a whole.

You cannot separate out different parts of it. Yes, you can attack different parts of it, I understand that. But I think we all need to understand that these pieces fit together as a comprehensive effort to deal with the economy both in the short and long term.

Secondly, it has to be fair and this plan is fair because it targets public and private investment. We provide incentives to private sector and targeted investment in areas we think essential for our society.

Thirdly, it is balanced. I understand the argument with regard to revenue and spending. It is tough when you are just trying to grind up the spending reductions because of the areas that you have to focus on. That is why I am very interested in hearing recommendations as to where we go for these additional spending reductions. I am anxious to hear those recommendations specifically because it is tough.

This program is balanced over the 4-year period. Admittedly in the short term the way we designed this is to move our investments, move our stimulus into the short term to try to deal with some of the short-term economic problems. Graduate in the deficit reduction, because with a weak economy you can't suddenly impose the deficit reduction. It has to be graduated in.

But by 1997 you begin to balance off revenues to spending reductions and in the outyears as you go beyond 1997, it becomes almost a 60-40 ratio between what you save on spending reductions and what you raise in taxes because we propose to be enacted permanent spending cuts—permanent spending cuts, not temporary cuts.

Those continue to produce savings in the outyears and that is why the ratio improves in the outyears. So overall it is balanced.

Lastly, we asked for a contribution from everyone. Yes, we go to the wealthy and those who made the most in the 1980's, because they ought to share in the process. We go to corporations, we go to businesses, we go to every American saying we all have to contribute to deal with economic problems.

It is honest. We use CBO estimates. We revised CBO based on methodology on some of the revenues, but this is all of CBO's projections on the economy that we use. And the reason we did that is obvious.

I have been through a number of sessions where we have talked about rosy scenarios, how much growth you are going to get, how much is going to happen with regard to unemployment, and the President and everybody around the table said "We ought not play those games. Let's start with the most conservative estimate about where the economy is going."

CBO's is the most conservative estimate. Let's stop talking about differences on economics. Let's try to get down to the hard decisions. That is why we used CBO. There are no gimmicks in here, no smoke and mirrors. What you see is what you get in terms of recommendations.

There are tough decisions that are made here. The decision basically to go after some key areas, whether it is defense, whether it is an energy tax, whether it is taxation of 85 percent of social security benefits, whether it is health care savings, whether it is savings in government of almost \$34 billion, along with a pay freeze.

These are not easy decisions and there are a number of other tough decisions. We achieve \$500 billion in deficit reduction between 1994 and 1997, \$700 billion by 1998. Two-thirds of that goes for deficit reduction, one-third goes into investments. We do \$140 billion in net deficit reduction in 1997, with the result being that we cut the ratio of deficit to GDP in half. We are at 5.4 percent in 1993 and move it down to 2.7 percent by 1997. So it is tough.

Lastly, the basic point of this policy is to provide a new direction for the future and to try to change some of the things that have happened over the last 12 years in terms of priorities, in terms of our investments, and again in terms of our lack of discipline with regard to paying our bills.

I know there is the attack on tax and spend and I suspected that that would be the first line of attack. Any time you do a budget, the argument is this is tax and spend. For the last 12 years, we have had tax and spend in this country. Tax and spend and borrow.

We have taxed working families. The middle class has been taxed particularly because of the payroll tax. Secondly, we have shifted resources in the country largely to the wealthiest of our society. They have made out pretty well during the 1980's by any standards.

We have borrowed a great deal and almost quadrupled the debt. As a consequence, we have just been through the worst recession since World War II. If we continue the same policies, we will repeat the same problems.

In this plan we tax, but the taxes are aimed at those who are most able to pay, those at the upper-income brackets, and they contribute 70 percent of the new revenues.

Secondly, we invest in working families and in children.

Thirdly, we do reduce the deficit in the outyears. We do reduce the deficit and grind it down so that ultimately it can be disciplined for the future.

Lastly, we think it produces a stronger economy. We are trying to deal with the policies that went sour over the eighties and our hope is to set a new direction.

This has been a crash program to develop a budget in 3 to 4 weeks when it normally takes three to 6 months within an administration. So we engaged in some consultation; not enough. It has been difficult to touch all bases. I am anxious to consult with both sides of the aisle as we try to deal with it.

Let me tell you some key targets that have to be met as we try to revise this approach if that is necessary. First, we have to hit the target. We need \$500 billion in gross deficit reduction by 1997; \$700 billion by 1998. No gimmicks, please don't give me any more gimmicks. We have had enough of those. Don't give me caps. Don't give me across-the-board this or that. Give me specifics as to how we reduce the budget or reduce spending or how we increase taxes. The American people deserve to have that kind of straight talk.

Let's do something. Let's not just engage in gridlock. Let's try to get some kind of plan moving.

Let me quickly go through each of the pieces of the proposal. First is the stimulus proposal which tries to deal with short-term problems. We propose close to a \$30 billion package for fiscal year 1993. It is made up of about \$16.2 billion in budget authority.

To those of you familiar with the budget process, we stay within the caps established by the 1990 Budget Agreement. Last year we had a surplus on the defense side of roughly \$16 billion in budget authority. We stay within that \$16 billion, so we do not exceed the overall caps established by the Budget Agreement with the stimulus package, \$16.2 billion in budget authority, we add additional obligation authority particularly in the highway area because in order to spend out the money in the highway area, you have to increase the obligational authority. So you have another \$3 billion added to that in increased obligational authority, another \$3 billion in loan levels and about \$6.4 billion in tax incentives, giving you roughly \$29.2 billion for 1993. Some goes into 1994, particularly on the highway projects which will take some time to complete, but most of it takes place in fiscal year 1993.

The result of that, we anticipate, is the creation of about 200,000 permanent jobs, another 150,000 more temporary jobs that are associated with the construction area, and in addition to that indirect jobs totaling almost 150,000 and on top of that the 700,000 summer jobs that the President mentioned in his speech last night. So we are close to almost a million jobs that we think can be produced between now and the summer.

The key areas we target are \$3 billion for the highway program. We fully fund the highway bill that was passed by the Congress. We want to try to initiate those funds. A lot of that goes for repair and maintenance because those are projects that can immediately move, \$2.5 billion goes into community development block grants.

There are suggestions about developing new revenue sharing. We wanted to move away from that because we thought that would in-

volve the authorizing committees, too many formulas that would have to be fought out between communities and States. We felt that the CDBG program is an effective program that is there. The communities have projects ready to go.

We will allow the Secretary to provide waiver authority so he can move that money faster into the communities. There is \$845 in waste water clean-up and \$1 billion goes into the Summer Youth program. In addition, rural development areas, waste water clean-up, and energy weatherization. Summer Headstart is established to try to deal with some of the city kids during the summer. Immunization is a program that will produce some jobs but more importantly will immunize kids and that is something we are targeting for the summer, \$300 million for that.

We have veterans buildings upgrading and we also extend unemployment compensation to cover those who have experienced long-term unemployment. On the tax side, the key thing there is a temporary investment tax credit that is provided for large businesses between 1993 and 1994.

We have a small business permanent tax credit that is put in place into the future. In addition to that we are also providing some targeted capital gains relief, depreciation allowances that would be subject to the alternative minimum tax and we will be providing permanent extenders in research and development, low-income housing and mortgage bonds.

Let me talk about the long-term investment program which totals \$60 billion. Long-term investments basically reflect the President's priorities.

There are five key areas for investments that reflect putting people first. The key area is rebuilding America and there we put in about \$48 billion over 4 years largely aimed at transportation, which is about \$8.4 billion. That is the full funding of the 1991 highway bill.

We also provide for increases in mass transit, high-speed rail and airport improvements. Environment is an area also part of rebuilding America. We provide about \$8 billion largely for clean water efforts. We are going to have to go after a new initiative on clean drinking water in this country, weatherization grants, forestry research and natural resource protection.

For rural development, we provide \$1.5 billion largely in rural water and waste loans and grants, community and business development, and we also do a health care initiative aimed at rural America. On energy, we do about \$3 billion in 4 years largely in energy conservation, renewable energy programs, fusion research and energy buildings.

Technology gets a big investment because we believe that one of the key areas for the future is good investment in technology.

There is almost a \$17 billion investment in the National Science Foundation, science, engineering and technology grants, high-performance computing, an extension of the R&D tax credits; housing and community development is also part of rebuilding America to the tune of almost \$9.6 billion over 4 years, a combination of CDBG, enterprise zones, assisted housing and the extension of the low-income housing credit. Lifelong learning, we are targeting an effort to educate and train our people.

There isn't anyone in this room that doesn't believe we ought to put more into the WIC and Headstart programs. What we want to do is move towards full funding. On the WIC program, we fully fund it to the tune of almost \$984 million and for Headstart, we fully fund that program as well.

The National Service program that the President is deeply committed to, that he feels the public has responded to for the future, is funded at \$3 billion; parenting and family support programs to try to assist in counseling families and assist families in deep trouble; education reform initiatives, worker training and youth apprenticeship.

Rewarding work is an area that the President feels strongly about. People work and they should work and we should reward those that work, not penalize them. So the earned income tax credit is increased at \$6.6 billion. Essentially what that says is every working family that is at the poverty level, when we provide the earned income tax credit we will move them out of poverty.

In addition, there is a crime initiative at \$837 million targeted at safe streets, community police as well as a police force.

Health care receives about \$26 billion largely targeted at women's health, other health initiatives as well as AIDS. We fully fund the Ryan White Act at \$394 million as well as increased AIDS research.

Drug and substance abuse prevention and treatment receives \$800 million. Nutrition receives some additional funds, as well as VA medical care.

In the private sector incentives, we provide about \$24 billion dollars, largely the investment tax credit—let me go through each of those provisions.

The first is a permanent small business investment tax credit for small businesses. That is basically limited by the amount of sales and assets of the business, but it would be 7 percent in 1993 and 1994; 5 percent thereafter.

We also have this incremental investment tax credit that would be in 1993 and 1994 for all businesses. We have the alternative minimum tax depreciation relief mostly for large businesses.

Thirdly, we have a targeted capital gains exclusion for investments in new and small businesses. Fourth, we permanently extend the R&D tax credit as well as low-income housing credits as well as the mortgage revenue bonds. We also modify the passive loss rules with regard to real estate dealers because of the problems in that area of our economy. Lastly, we have the earned income tax credit. That concludes the investment package that, as I said, is about \$160 billion.

Now to the deficit reduction part of the package. Here, as you know, there are only so many areas you can go after. You can look at defense and nondefense and entitlements and revenues. On defense, our goal was to basically achieve savings in line with what the President had committed during the campaign, roughly in the vicinity of \$60 billion beyond those proposed by President Bush.

The target here is for \$7 billion in defense savings for 1994, roughly \$4 billion of that is in substance, \$3 billion would be on payroll savings because of the freeze. In addition, we look at about \$37 billion by 1997. If you look at the caps we would establish

under the defense heading, the budget authority caps would be \$275 billion in budget authority for 1994 and it would gradually move to about \$250 billion in budget authority by 1997. The total savings in defense come close to \$76 billion between 1994 and 1997.

There is one element I draw your attention to. We estimate that there is about a \$5 billion gap here between what President Bush proposed in savings and what actually will be delivered based on his proposals. Mr. Aspin proposed a commission to look at the issue of whether or not we have achieved the savings proposed by President Bush in the defense budget.

As some of you familiar with the defense budget know, there was an area called defense management savings, \$70 billion plus. We are concerned that actual savings will fall short of that goal. If so, we have said those savings have to be made up; so that is why we have the larger number with regard to defense is to make up for lost savings and to implement the policies of the President.

On nondefense discretionary spending, we target \$50 billion in savings between 1994 and 1997. There were four categories that we applied here—programs that do not work, trimming subsidies and implementing fees for services, management savings and streamlining government.

Let me touch some of the proposals in each area. On programs that do not work, we achieve \$7 billion in savings. We terminate many commissions. One of the commissions still around is the Commission on the Bicentennial. We thought it was time to get rid of that commission and other commissions that have been put in place and that have long since lost their reason for existence. There are about 200 advisory groups that we are also going to get rid of.

We are terminating things like the State Justice Institute which the government funded for the last 10 years basically to assist State and local communities. We think State and local communities can basically pick up those costs. The TVA has a fertilizer program. We thought the fertilizer industry, an \$8 to \$10 billion industry, is strong enough that it can do its own research without having TVA have to do that.

In addition, we eliminate what we think is nuclear R&D that serves no commercial purpose any more and that includes things like development of the breeder reactor.

On trimming subsidies and establishing fees for services, we reduce our security assistance and tighten up on that. We also reduce the REA, as the President pointed out yesterday with regard to interest levels. What he did not mention is that we maintain a \$25 million fund to provide low-interest loans to people in need, so that while we are increasing overall interest on the loans of REA in other areas, we do maintain \$25 million to try to assist those in need.

We eliminate almost all earmarking that has been done in the Congress. We eliminate earmarking on the Cooperative State Research Service, we eliminate earmarking in FDA, we eliminate earmarking in agriculture research and in NOAA demonstration programs.

We also increase fees in the FDA and agricultural areas, the BATF. We increase fees there as well as the SEC.

On management savings, let me draw your attention here because the President was very strong about having government take the lead with regard to savings in government. We have indeed achieved some major savings in this area. We have established almost \$35 billion in savings. Some of that is in programs that you are familiar with.

We do reform the Crop Insurance program to try to provide and tie premiums to area yield. We phase out the low-cost timber sales, consolidate overseas broadcasting. We phase out Part B of Impact Aid because we think Federal employees that live in the community and pay taxes, we think that is sufficient to support the school system.

We redesign the Space Station to try to control cost overruns in the outyears, and stretch out the Supercollider because of concerns about some of the technology. The President is committed to both programs, but wants to make sure that they do not continue to have serious cost overruns.

With regard to government, in addition to the White House cuts, we have the 100,000 Federal employees cut. There are administrative cuts in government of 3 percent, 6 percent, 9 percent, and in the last year 14 percent in terms of administrative savings. That is not going to be easy but that is the requirement under the executive order.

In addition to that, we freeze all salaries. Federal workers, both civil service as well as military as well as congressional salaries, are all frozen. Then we do a CPI minus one for the next 3 years. In addition to that, I presented a number to each Department to streamline their Department. I have given them a number plus we have indicated some of the programs that can be consolidated.

I have said to the Secretaries, "You tell us what programs don't work, which can be consolidated and you meet a certain number in terms of streamlining." We have done that with regard to every agency. So we have significant savings on the management side when it comes to government.

On entitlements, our goal is to achieve \$91 billion dollars in savings by 1994-1997, almost \$99 billion between 1994 and 1998. We have several categories that we looked at when we came to entitlement programs.

As you walk through the entitlements, use these as guidelines. The first is where can we trim subsidies and where can we try to provide fees for services. In the entitlement area, we looked at the Power Marketing Administration. That is an area where we think we can achieve some savings particularly with regard to energy conservation to allow those utilities to implement conservation efforts, and then sell that power and provide 50 percent of that to the government and 50 percent that they would hold onto.

We recommend and provide the Secretaries of the respective Departments the discretion to establish fees in grazing, in recreation areas, on inland water and irrigation water so that we again continue to increase the fees in those areas in order to cover our costs. They will be done hopefully selectively, but they have to be done.

We establish hard rock mining fees which are already in place. We extend those out and establish a royalty system with regard to hard rock mining. We target subsidies in the agricultural area. We

target CCC payments to farmers who have income of \$100,000 or less. Those who have non-farm income exceeding \$100,000 would not be eligible for CCC payments. This is a provision we have had and fought over a number of times but we think it is time to target those subsidies to smaller and full-time farmers.

In addition, we request savings with regard to triple basing, moving from 15 to 25 percent to reduce payments in that area. We establish assessments on the noncommodity crops pursuant to triple basing. We eliminate the honey subsidy and limit payments under the mohair program to \$50,000 per person. We try to again target smaller farmers in this area.

We recommend that the Federal Communications Commission auction the spectrum. This is a proposal that has been around awhile. It is controversial but we think it is legitimate.

Secondly, the management in the government area, we think we can improve management of entitlements in a number of areas. Student loans we propose moving toward a direct loan program. That is already a step taken. There are pilot programs going into place with regard to direct loans. We recommend eventually moving to a full direct loan program as a savings of \$1.3 billion.

We ask that States share in default costs associated with the student loan program. When you receive 20 percent default, the States ought to begin to share in those costs. We try to provide incentive to the States to assist us in controlling abuses in this area.

FHA insurance reforms are also included. We also extend some VA reductions that were included in the Budget Agreement; for example, the continuation of the prescription co-payment as well as medical care cost recovery.

On health care, we recommend almost \$41 billion in savings between 1994 and 1997 largely in the medicare area. There are a number of extensions in the Budget Agreement that we would extend. In addition to that there are a number of other provisions that we think would provide the kind of cost controls with regard to providers that need to be done under any circumstances with or without health care reform.

On that issue, sometimes the question is raised why would you provide medicare savings outside of health care reform. The President used this as a down payment on health care reform. We have to decide what those policies will be over the next few months. But on medicare, the view is that we are not going to change dramatically health care for the elderly. I think we are basically going to keep the health care program in place for the elderly. Our view is that under any circumstances you need to control costs in that area. These provisions will do that, so this is indeed a down payment with regard to health care reform in the future.

In addition, I emphasize what the President said, that we ask no new increase with regard to beneficiaries. While we will continue the premium they pay at the 27 percent level, we do not increase that. We maintain the current level. The bulk of these hits are basically on the providers.

Lastly, on shared contribution, we think it is important for everybody to share in this efforts and for that reason we recommend an increase in social security tax, 85 percent of benefits. Right now 22 percent of social security recipients pay the 50 percent of bene-

fits on their taxation. We would target the 85 percent on those who currently pay taxes, but do not extend that tax to those that do not pay at the present time.

We do think it is legitimate to ask that that tax be increased up to 85 percent of benefits. If you look at Civil Service and military retirees they pay 100 percent so it makes sense to begin to move up in that area as well. It is controversial, but it makes clear that everybody has to participate.

We end the lump sum payment and also strengthen child support enforcement in the hope that we can achieve about \$328 million in savings.

On revenues, we achieve \$246 billion on revenues. Many of those were discussed by the President last night. We raised the top rate to 36 percent. The alternative minimum tax rate is increased to 26 percent. We have a phase-out of itemized deductions. We have a phase-out of personal exemptions. Those were contained as many of you know in the 1990 Budget Agreement and we basically extend those provisions.

We repeal the high-income taxable wage base at \$135,000. We basically lift that cap. We reduce the maximum excludable pension contributions. We extend 53 percent and 55 percent estate tax rates to the current levels and basically extend the same levels that are in current law. We deny deductions for executives paid over a million dollars and we deny deductions for club dues.

We recommend increasing the corporate tax rate to 36 percent. We deny business lobbying deductions and in addition implement tough enforcement with regard to foreign corporation tax compliance. We implement a broad-based energy tax with an increased tax rate on oil to reflect its environmental disadvantages. It is a modified Btu formula.

Those are all of the elements that are part of this proposal. They are all before you in the report. As you can see, these are some very tough decisions, but the consequences of this we hope are to produce jobs, to target both public and private investment and to provide we think a stronger economy.

Let me mention budget enforcement. Our recommendations are that we continue established caps in spending, that we establish discretionary caps through 1997, that we continue the pay-as-you-go requirement and that we continue sequester. If you fail to stay within those caps, we will sequester funds in order to meet those caps.

The President has recommended strongly the enactment of the enhanced rescission proposal that would allow him to propose rescissions to the Congress and have those voted on. So we argue that this ought to be part of the reconciliation bill.

Let me describe in the end where we are headed with regard to the deficit. I will conclude on this note. The current base line on where the deficit is headed is the upper line that you see there. It is the base line assuming CBO's economics, meaning essentially we are headed toward a \$600 billion deficit by almost the beginning of the next century and move up to \$700 billion deficits soon into the next century.

This is not acceptable. We are headed towards a cliff if we continue to follow this line. The next line reflects the policies we have

proposed with CBO projections. We bring it down through 1997 to about \$200 billion in deficits. It begins to go back up if you follow CBO's projections about where the economy is going and if you don't control health care costs.

The next line, which is the green line, assumes that we do better in the economy, which means that hopefully the blue chip estimates about where we are going on growth as well as our own Council of Economic Advisors, that their projections are correct.

There you see the line beginning to level off. If you include the changes in growth in the economy plus we do something about health care reform, then you see where the deficit would be headed with those policies, which is where it should be headed, towards less than 1 percent of our GDP by the year 2003, which would bring it somewhere between \$60 billion and \$70 billion by that time.

So this chart basically says to all of us we have to make this first step. We have to implement about \$500 billion in deficit reduction in 4 years, \$700 billion in 5 years and in addition to that we have to enact health care reform in order to get a handle on where the deficit is headed and in order to strengthen our economy.

Mr. Chairman, I realize that there are going to be a lot of complaints and criticisms and outcries with regard to this proposal. I anticipate that there should be those kinds of criticisms because that is what the democratic process is all about. But this is a historic moment. For too long we have been in gridlock when it comes to this issue and I would ask for your partnership and for your participation in the effort to finally act on what is a very real crisis for America at this point in time.

[The prepared statement of Hon. Leon E. Panetta follows:]

PREPARED STATEMENT OF HON. LEON E. PANETTA, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, it's a pleasure to be back home. Before I begin, I want to take a moment to congratulate you on your election as Chairman, and also congratulate Mr. Kasich on his selection as ranking minority member. I look forward to working with you both as we seek to implement the bold new economic program the President has proposed for our country.

As you know, the program you have before you is not a complete budget. We are aiming to publish a full budget on March 23. The Clinton Administration is the first new Administration ever to be required by law to submit a complete budget. I am sure you can understand the difficulty of accomplishing that within only a few weeks. Nevertheless, because of the extraordinary process that the President and members of his economic team have gone through over the past several weeks, we have provided a substantial amount of specific information in this document, enough, I hope, for the committee to begin its work on a budget resolution for fiscal year 1994.

We hope that you will be able to move a budget resolution and follow up with a reconciliation bill that implements the key elements of the President's long-term proposals. In addition, we are hoping that the Appropriations Committees will move swiftly on the economic stimulus that is a part of the economic program.

Mr. Chairman, we entitled this document *A Vision of Change for America*. That title reflects my beliefs about what the American people want from us here in Washington. Americans did not vote last November for the status quo. They voted for change. They were concerned about the current state of the economy, and they were concerned about our country's future, about the legacy we will provide for our children. Those concerns are alive and well, and with good reason.

THE LEGACY WE INHERIT

First, the recovery from the recession has been weak at best. While we have seen some positive signs, the reality is that the recovery has been accompanied by virtually no growth in jobs. The unemployment rate is still higher than it was at what economists refer to as the trough of the recession. Twice before we have seen the recovery process begin, only to sputter when early signs of growth were not followed by solid gains in employment. This time, we must be absolutely sure that the recovery is strong and durable enough to put Americans back to work.

But America's problems are deeper than a temporary lull in economic activity. The American people worry about the future, because they know that our economy and our society are unprepared for the challenges that face us and our children in the 21st century. They worry what kind of economic opportunity our children will have. They wonder whether the next generation will be the first to have lower standards of living than the one that preceded it.

The fact is, to raise standards of living, we must aim for better jobs at higher wages. We must add to our economy's capacity to create a better life for all. To do that, we must improve the productive capacity of our workers. And to do that, we need to close the investment deficit in our economy, the lack of adequate public and private investment in our people, our infrastructure, our plant and equipment, in research and development, and in new technologies that can add to productivity.

The reality is that the United States devotes a smaller fraction of gross domestic product to business investments than do the other major nations with whom we compete in the international marketplace. Likewise, American governments at all levels have been spending a decreasing share of our total resources on civilian public investment—both physical investment and the research and development that underpins future growth. We have underinvested in education and training as well.

More investment is vital to raising the growth rate of productivity and boosting living standards. We must invest more in business capital, in public infrastructure, and in the skills of our people. Our future has been shortchanged for too long. We owe it to our children to change course now.

Finally, there is the budget deficit. The budget deficit is a major culprit in the investment deficit, because Federal borrowing drains the private resources needed to invest in our economy. Likewise, growing annual interest payments on the debt crowd out other priorities. You all know the numbers. If we do nothing to reduce deficits, they will climb well over \$600 billion over the next ten years, robbing the resources we need to make a better life for our children.

President Clinton's economic program seeks to respond to each of these problems.

STIMULUS

First, the President is proposing a \$30 billion stimulus package to strengthen and prolong the economic recovery. The focus of the stimulus package is on creating jobs by placing a down payment in the current fiscal year on the long-term investments that will create greater economic growth in the future.

We are asking that Congress pass the stimulus on an expedited schedule. We believe this plan will produce over 500,000 full and part-year jobs through investments in highways, summer youth employment, community development, natural resource protection, summer Head Start, the WIC program, youth employment, veterans facility upgrading and energy conservation.

Some of the major components of the stimulus proposal are: \$3.0 billion in highway investments; \$2.5 billion in Community Development Block Grants; \$845 million in wastewater clean-up initiatives; \$1.0 billion in summer youth employment and training; and a temporary incremental investment tax credit.

The spending portion of the stimulus package will be within the overall discretionary spending totals for fiscal year 1993 agreed to in the 1990 Budget Agreement. It is a fiscally responsible measure that can help ensure a strong recovery.

LONG-TERM INVESTMENTS

The second component of the President's program is a four-year plan of carefully targeted public investments in economic growth and jobs. The plan provides \$160 billion over four years of investments that focus on rebuilding America through investments in infrastructure, energy and the environment, and housing; improving education and encouraging job training to enhance the current and future productivity of our people; rewarding work by taking working families out of poverty; improving health care and research; and providing incentives to the Nation's business-

es to invest in technology and improved productivity of people, plants and equipment.

Following are highlights of the additional investments proposed through fiscal year 1997:

Rebuild America—The Administration plan includes \$18.6 billion by fiscal year 1997, \$48 billion over four years, for initiatives to restore the Nation's infrastructure, environment, housing stock, and technology base.

Transportation—The Administration proposes \$3.0 billion in fiscal year 1997, \$8.4 billion over four years, for initiatives that include full funding of the Intermodal Surface Transportation Efficiency Act and investments in mass transit, high speed rail, and airport improvements.

Technology—The Administration proposes \$6.1 billion in fiscal year 1997, \$17.0 billion over four years for a number of investments including the National Science Foundation, science, engineering and technology grants, high performance computing, and extension of the research and development tax credit.

Environment—The Administration proposes \$3.5 billion in fiscal year 1997, \$8.0 billion over four years, including \$4.5 billion for clean water and increases for environmental technology, weatherization grants, forestry research, and natural resource protection.

Energy—The proposal provides over \$1.3 billion in fiscal year 1997, \$3.0 billion over four years, for such items as energy conservation and renewable energy programs, fusion research and more energy efficient Federal buildings.

Housing and Community Development—The Administration proposes \$3.1 billion in fiscal year 1997, \$9.6 billion over four years in Community Development Block Grants, enterprise zones, assisted housing, and extension of the low-income housing tax credit.

Rural Development—Investments include \$620 million in fiscal year 1997, \$1.5 billion over four years, in priorities such as rural water and waste loans and grants and community and business development for rural areas.

Lifelong Learning—The Administration \$15.7 billion in fiscal year 1997, \$37.8 billion over four years for programs to educate and train our people from early childhood through adulthood. Included are defense conversion measures. The following increases are for fiscal year 1997: National Service—\$3.0 billion; WIC: full funding by fiscal year 1996—\$984 million; Head Start: full funding by fiscal year 1999—\$3.7 billion; Education reform and initiatives—\$3.2 billion; Worker training—\$4.1 billion; Youth Apprenticeship—\$500 million; and Parenting and Family Support—\$495 million.

Rewarding Work—The Administration proposes \$7.5 billion in fiscal year 1997, \$25 billion over four years, to remove disincentives for work, protect those who are temporarily unemployed and secure safer communities. These include an expanded Earned Income Tax Credit, the extension of emergency unemployment compensation benefits, and a crime initiative.

Health Care—The plan provides \$9.4 billion in fiscal year 1997, \$26 billion over four years, for improving public health programs to help families and make our workers more productive, including the following fiscal year 1997 investments: AIDS, women's health, and other public health initiatives—\$3.4 billion; AIDS—Ryan White Act full funding—\$394 million; Drug and substance abuse prevention and treatment—\$800 million; Nutrition assistance and USDA food safety initiative—\$102 million; Improving Social Security disability insurance processing—\$200 million; and VA Medical Care—\$1 billion.

Private Sector Incentives—The plan provides \$3.0 billion in fiscal year 1997, \$24 billion over four years, for carefully targeted incentives and initiatives to encourage investments that provide technological gains and improved productivity of plants, equipment, and people, including: a targeted capital gains provision; alternative minimum tax relief for corporations; a permanent small business investment tax credit; and real estate investment incentives.

DEFICIT REDUCTION

Finally, the President is proposing the largest deficit reduction package in history. The gross deficit reduction measures in this package are almost \$500 billion over four years and over \$700 billion over five years. The plan achieves \$140 billion of deficit reduction in fiscal year 1997 and reduces the deficit as a percent of GDP from 5.4 percent of GDP in fiscal year 1993 to 2.7 percent of GDP in fiscal year 1997.

Over four years, two-thirds of the deficit reduction in the plan goes to deficit reduction, one-third to incentives.

This plan is fair, it is balanced, it is credible, and it is real. There are no accounting gimmicks. There are no rosy scenarios. Indeed, we have used the very conservative economic estimates of the Congressional Budget Office. There aren't any caps that pretend to cut spending but actually leave decisions for another day. All we did was cut spending in at least 150 ways, and raise revenues. It's all there in black and white, nothing phony, no smoke and mirrors.

And we will propose to enforce the deficit reduction by an extension of the Budget Enforcement Act, with continued caps on discretionary spending, "pay-as-you-go" requirements, and sequesters.

The plan would reduce Federal spending by \$247 billion over four years, including defense savings of \$76 billion, non-defense discretionary spending cuts of \$54 billion, and entitlement reductions of \$91 billion, along with savings in interest on the debt. In addition, revenues are increased by \$246 billion over four years.

In the fourth year of the plan, spending savings far exceed revenue increases, and that trend would continue into the out-years.

The spending savings in the President's plan are in six general categories: programs that don't work or are no longer needed; eliminating subsidies and wasteful programs and charging fees for government services; managing government for cost-effectiveness and results; controlling health care costs; adjusting defense spending to new post-cold war realities; and asking for shared contribution from all Americans.

Please note that the President has gone first to government to reduce costs in an effort to reduce the deficit. He has ordered cutbacks in the White House staff and throughout the government. He feels strongly that if he is going to ask the American people to change, government must lead the way.

In addition, the plan provides for additional revenues, primarily by ensuring that the wealthy and corporations pay their fair share. The plan also includes a Btu-based energy tax, which will not only raise revenues to reduce the deficit but also have a positive impact on the environment, while encouraging energy conservation and independence.

Clearly, after requiring government to do its share and asking the wealthy to do their share, the President is asking most of the American people to make a contribution as well. We are counting on all Americans to support us in our efforts to make a better life for our children.

Few of these choices were easy. But this President is determined to talk straight to the American people about our problems.

As my former colleagues, I want to ask you—when was the last time a President talked straight to the American people about the budget? When was the last time a President was willing to take on the tough decisions in every area of the budget, not just one or two.

I have sat in budget summit after budget summit. And you all know the routine. One side comes into the summit willing to make a few domestic spending cuts but unwilling to reduce defense spending or tax the wealthy. The other side comes to the table willing to cut defense and tax the wealthy, but unwilling to take on domestic spending.

No matter how you may feel about individual components of this budget, you all have to concede that this President has tossed aside the old way of doing things. He has come forward with real spending cuts in both domestic discretionary spending and entitlements, as well as defense. He has also come forward with proposals for increased revenues, with a plan that would collect some two-thirds of the increase from the wealthiest in our society. But he has had the courage—and the leadership—to ask all Americans to make a contribution.

This President will not run away from the tough choices. For the sake of our children, for the sake of jobs and long-term growth and higher standards of living for our people, I hope you will join us in making this unprecedented commitment to long-term investment in our economy.

I have a feeling I'm going to hear a lot of complaints this morning about this spending cut or that tax increase. I welcome suggestions. You and I know as well as anyone that this is the beginning of the budget process, not the end.

But if there is a spending cut in this package that you would like to replace, or a tax increase you'd like to delete, please tell me how you are going to replace it. And please be specific—no artificial spending caps, no gimmicks, no *assuming* that tax cuts will reduce the deficit. Just keep it straight, and we'll be ready to work with you.

If the Congress enacts this plan, the results will be dramatic. But the reality is that deficits will begin to climb back up toward the end of the decade. The primary reason is skyrocketing health care costs. As a government and as a society, we must reform health care to ensure quality, affordable care for all Americans. Health care

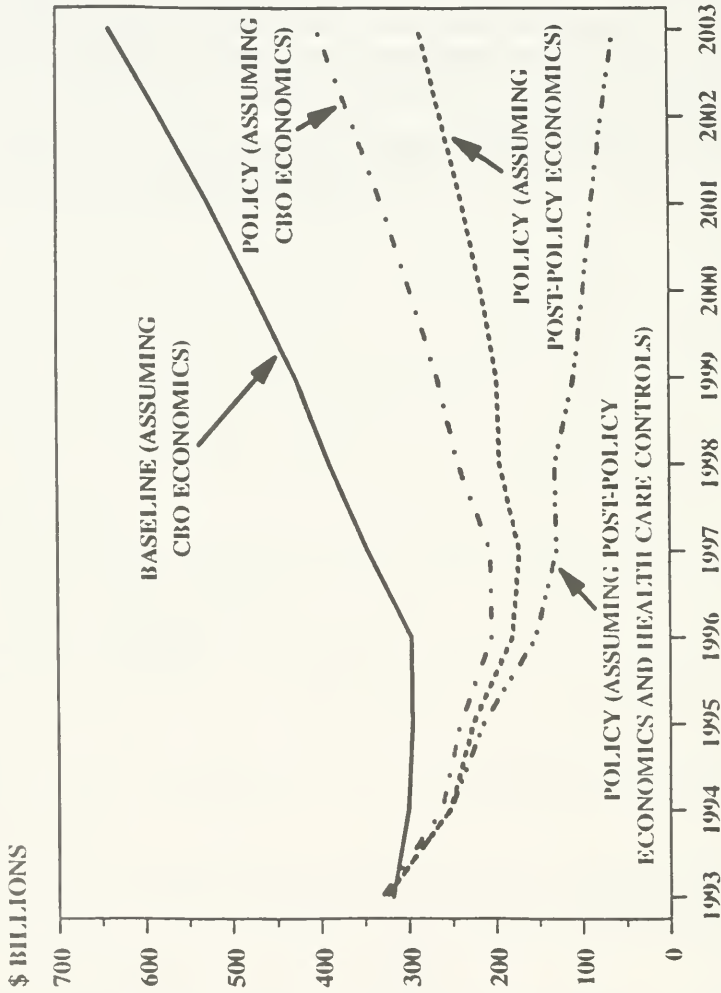
costs threaten the security of families, businesses, and government alike. We must act to control health care costs if we hope to control deficits in the long term.

The President will propose major health care reforms within the next few months. Those reforms will be a major piece of the deficit puzzle in the long term.

Mr. Chairman and members of the committee, in a formal sense we are former colleagues. But we remain colleagues in the sense that we bear the same responsibility to work together on behalf of the American people. I believe we all share the vision of a better life and higher standards of living for our children, that we want to strengthen the economy today to ensure a strong recovery that provides jobs for our people, that we want to reduce budget deficits and their impact on our long-term economic prospects.

We are asking the Nation to change. The permanent cost of not changing is far greater than the temporary contribution we ask of all Americans. I ask you to join me in working with President Clinton to achieve this vision of change for our country.

FEDERAL DEFICIT PROJECTIONS 1993 - 2003



Chairman SABO. Thank you, Mr. Panetta, and thank you for an excellent presentation. I think the job that you and other members of the administration have done in working with the President in sending this comprehensive program to us is outstanding.

I think you have laid the foundation for congressional action. My hope is that we working with you can move this program forward. I know we will need to have ongoing discussion over many technical questions, many technical numbers, and we hope to move very quickly to do that so that we can be in a position to move the basics of this budget forward in a very short time.

I think you are to be commended for the honesty and the integrity with which you have approached this process. It is great to have a budget before us that doesn't have gimmicks, that doesn't have smoke and mirrors. If we are fundamentally going to deal with the problem in a fashion that the American people can understand to begin with, honesty is by far the best policy and I commend you for it.

I think your program lays a foundation for changing the economics of this country in terms of getting us to focus on investment, on training and to build a foundation for the 21st century.

As I look at your numbers, I think one of the most important ingredients is what happens after 1997. My observation over the years as we have dealt with so many budgets is that we set targets, meet them for a period of time and then the policy decisions disappear and we have to go back and redo what we have done before.

Your proposal sets us on the track not simply for this 4-year period, but on the right track for the years beyond.

As this budget goes through the Congress, I think it is essential that we keep that same type of focus in place. Clearly an important ingredient in the administration's view of the importance of this budget is a focus on the investments that we make both publicly and privately.

I wonder if you would focus a little bit on the incentives that you have in your proposal that are aimed primarily at job creation in the private sector particularly on small business?

Mr. PANETTA. As we were walking through this, we felt that it was extremely important that we not only provide incentives for public targeted investment, but that we had to get the private sector as a partner into this effort. So our whole goal there was to ensure that we provide more permanent tax breaks with regard to small business.

We knew we had to provide some immediate stimulus for 1993, and as you will recall, both Chairman Rostenkowski and Chairman Bentsen, when he was Chairman of the Finance Committee, made a commitment that any kind of change in the investment tax credit would be retroactive back to December.

So building on that, we established an incremental tax credit that would be available to large businesses, but we wanted to have in place a permanent small business tax credit that small business could rely on into the future. We know that small businesses are really one of the engines of the American economy and for too long they have taken a big hit.

The goal was to basically say what we want to do is to try to provide relief to small businesses by making that tax credit perma-

nent. In addition to that, we basically established the incentives that you are familiar with regarding the alternative minimum tax depreciation.

What we wanted to do there was to provide depreciation relief and frankly what we heard from small business was that this is an area that they need relief in. They want to invest. If they want to be able to establish a new business they have to have depreciation relief with regard to the alternative minimum tax. So we provided that.

On capital gains, what we decided is that we wanted to have capital gains relief, but wanted to target the capital gains exclusion particularly for investments in new small businesses held for a minimum of 5 years to try to assure that they, in addition to the tax credit, would also get the capital gains exclusion.

I think the permanent extension of the R&D tax credit as well as the low-income housing credit makes clear that we are not just going to take the tax credits and jerk them in and out of our tax system. One of the problems in the last few years is we provide an extender and it comes to an end in a year or 2 and people have no idea whether those benefits are going to be there or not. Our view is that they ought to be made permanent and that is what we do in these provisions.

So overall when you look at the tax side of the ledger, overall small businesses do get targeted help with regard to tax incentives, but beyond that when you look at the investment side, Mr. Chairman, I think it is important for us to understand that while obviously businesses are concerned about what tax credits and tax incentives flow to them directly, they are also concerned about what happens in the rest of society.

I remember a point when I sat there as Chairman and watched eight CEO's sitting here saying we ought to fully fund Headstart because that was important for the work force in the future; that we had to fully fund training programs, that we had to do better on education. So the investments with regard to education, training, technology translate into helping business in this country. You can't isolate these issues.

There is a traditional argument: wait a minute; that is a social program and therefore you ought not do that; this is a tax credit; therefore you out to do that. Our society is not going to come together unless we make investments in education, in technology, in R&D as well as provide the tax incentives to business.

Chairman SABO. Unfortunately as you know so well, our bells are ringing. Let me consult with Mr. Kasich here. I was going to yield to him next.

Mr. KASICH. Thank you, Mr. Chairman.

It is interesting. This question of investment of course is a slippery slope because I read newspaper reports that the Space Station was on the chopping block recommended by you. Then after the whining of Senators from Texas, it went from being on the chopping block as pork and ended up as an investment program. So it is pretty clear that one person's investment program is another's pork. The squealing of the Texas delegation, particularly the Senators and the new man that is up for reelection to the Senate, took

us from a chopping block of the Space Station to what we call a vital investment program. It is interesting how we mix the terms.

I also was fascinated by what you said about the eighties represented tax and spend. Most of the Republicans were opposed to the 1990 Budget Agreement. You said "The 1990 Budget Agreement is the best fiscal disciplinary fool this Nation has put in place in years." It looks as though we are raising taxes by \$325 billion to make up for the deficit we did not reduce in the 1990 Budget Act.

I understand what you say about not wanting to take this package in pieces, but being in Congress in my eleventh year it is hard for me to take serious fiscal discipline spelled out 4 years from now and ignore fiscal discipline spelled out in year 1. In year 1, we had \$36 billion in new revenues and \$2 billion in net spending reductions.

Bob Reischauer was here and he said that the fiscal stimulus program was really pretty meaningless. A \$30 billion program, in a \$6 trillion economy doesn't mean anything. In addition, any fiscal stimulus package we would pass would represent parking garages in Houston and won't happen for 8 months. This stimulus package offsets any spending reductions you try to make.

What the heck went wrong in year 1? Why not have the cuts now and the taxes later rather than what we always see, which are the taxes now, the \$36 billion in taxes now and only \$2 billion in cuts now? Why didn't we do it the reverse?

We have been doing it that way every single time.

Mr. PANETTA. You have to look again at the entire package and how it would move through the Congress. Obviously while the stimulus would move as a supplemental appropriation, our hope is that you move a budget resolution on an expedited track which would basically incorporate the targets for deficit reduction not only now, but through 1997, and that ultimately we would move a reconciliation bill and that will contain savings for a 4-year period and beyond because the reconciliation bill will enact permanent reductions in programs.

It will also enact the revenues as part of that package, so that the Congress is not going to be avoiding the tough decisions. You are going to have to make a decision in reconciliation whether you are going to put in place a program that is going to produce significant spending cuts and significant revenues over the next 4 years. That is going to be the vote.

Nobody is going to avoid that vote.

Mr. KASICH. The taxes remain permanent and spending cuts are temporary.

Mr. PANETTA. That is wrong. Spending cuts are permanent.

Mr. KASICH. I have been here 11 years and watched tax and spend including tax and spend by a Republican President. We went from two for one to one for one and now in the first year it is \$36 billion in revenue and \$2 billion net spending reduction.

How can you do that in the first year and have credibility? Why not \$36 billion worth of spending reductions and \$2 billion worth of taxes?

Mr. PANETTA. You have to look at the state of the economy. If you enact \$36 billion in deficit reduction in what is still a relatively

weak economy, the concern is you are going to cause greater consternation with regard to the economy.

The concern was how do you begin to try to ratchet this up in a way that the economy can basically accommodate, not only additional investment going into the economy to produce jobs, but then to ratchet in the deficit reduction over a period of the next 4 years. What you can't lose sight of is that ultimately we do more in spending cuts than we do in revenues, and that is where we should be, but you can't do that the first year, particularly with a weak economy.

Mr. KASICH. The proof is in the pudding. The stock market tumbled 83 points when they got an idea of your taxes and deficit reduction. Raising taxes sends the right signal? That is why the stock market plummeted 83 points when they got wind of your program.

When they find out it is \$36 billion in revenues and \$2 billion in savings the first year, people don't believe that in America and on Wall Street.

Mr. PANETTA. What you have to have in a package, it has to be balanced. You can't just do this on the spending side. This is a long-going argument with respect to your party and that you can't raise taxes at all in order to deal with this issue. You can't solve the problem unless you do it on the spending side and revenues.

Mr. KASICH. We need a balance. \$36 billion in revenues in 1994 and \$2 billion in spending cuts is not a balance. That may be a balance that the administration supports, but the American people are not going to accept the \$36 billion to \$2 billion.

Mr. PANETTA. Do you support the 36 percent rate with regard to the wealthy?

Mr. KASICH. Let me tell you this; I want to make spending reductions first and worry about taxes later, because what has happened in Congress in the 10 years I have been here is tax and spend. You give us a couple years worth of spending cuts and we come up short. Reasonable people can agree we ought to have revenues. But what you give us is spending, taxes and no cuts and more spending.

I think it is the wrong perception. Reasonable people can disagree.

Mr. PANETTA. I have heard the arguments before. The problem is that we have had gridlock in the Congress because Republicans have always taken the position you can't increase taxes on the wealthy. The Democrats say you can't cut programs, and that produces gridlock. You are a perfect example of the kind of gridlock people are tired of.

Mr. KASICH. I will read from the Post today. "Shrinking the deficit could slow the economy and stymie job creation while big spending programs to create jobs could increase the deficit. In trying to meet these two goals, Clinton, who campaigned as a self-styled new Democrat, ends up looking like an old-fashioned Democrat." That is The Washington Post.

Mr. PANETTA. We have \$1.2 trillion in additional tax increases in this country, 1.2 trillion dollars and the consequences of that was an economy that went into a recession on the hope that somehow all boats would lift and that we would have this great economic boom in this country.

We learned our lesson. We are not going to go back to that. Things have to change and your party has to confront the fact that if everybody is going to deal with deficit reduction—and we mean everybody, the wealthy, businesses, we mean everybody.

Chairman SABO. The committee will break. Mr. Beilenson left first. I expect him to be back and he will take over the Chair and it is his turn to ask questions.

[Recess.]

Mr. BEILENSEN. [presiding]. We will get started and the real Chairman will be back in short while. He asked us to get started because the Director's time is limited.

Let me say at the outset that it is good to see you. It is good to have you back here with us even if for such a short time. More importantly—and I think I speak for Members on both sides of the aisle—it is reassuring and comforting to all of us to know you are helping the President. You are somebody who understands and cares about this problem. It makes us all feel good to have you there as somebody who is helping the President work through these problems.

I must say—and this is not directed to you. I was a little discouraged and distressed at the outset—I am sorry he is not here because these remarks are directed to him—to encounter on this first day of the discussion of the President's discussion of the proposed economic plan what can only be described as a partisan political tirade from the Ranking Republican. There are other colleagues sitting to my left who, if they were in that position, I think would not have taken the same position.

The gentleman from Ohio talked about broken campaign promises. He doesn't have much cause to complain. He didn't vote for Mr. Clinton. Those of us who did vote for Mr. Clinton are rather happy with what you came up with. It is comforting to us to know that after 12 years we have a President and administration who is serious about this most serious of problems which confronts the United States. It is about time we had a President and advisors who came up here and told us the truth and who base their proposals on conservative, as you suggested, economic assumptions to come up with a plan which in my opinion is a relatively fair program, one which is credible, and as The Washington Post said in an editorial a couple of days ago, an honest accounting, an honest budget would itself transform the debate and add basis.

The bottom line is that we seem now for the first time in recent memory to be dealing with an honest budget and with credible figures with the hope that when economic projections change in the future, we may for the first time in recent memory see better predictions than worse once that we are finally on the right track.

We give you and your colleagues credit for trying to start us on the right track. It is our responsibility as well as yours.

As you suggested earlier, and Mr. Kasich feels this way too—we are looking forward to specific suggestions from our colleagues on the Republican and on the Democratic side for further cuts. That is what people want to propose.

I have always felt that politically—I know this goes against the general wisdom—that it is a good deal easier politically to raise taxes despite all the complaints about it from politicians and from

people back home than it is to cut programs. It is much easier to raise taxes than to cut programs.

As a Democrat who would like to cut more programs than you have suggested, I am looking forward to some suggestions from our colleagues on the other side of the aisle and colleagues on the other side of the aisle for additional program cuts.

I have two questions, if I may. I alluded to the first to a certain extent. Some of us would like to be doing even more to reduce our deficit than the President has proposed for now. Did you and the Economic Advisors consider proposing an even larger package of tax increases and spending cuts or did you decide that these proposals were the most that you could propose with the economy still in a somewhat weakened state?

Mr. PANETTA. The approach we took in trying to move towards a package here was again to focus on 1997 and trying to determine where we wanted the economy to go and where we wanted deficit reduction to go by that period of time. The President had talked during the campaign about the possibility of reducing that in half.

As a consequence of some of the changes that occurred in the deficit, that became more difficult to do. The discussion then turned to could we focus on the level of deficit reduction that we wanted to achieve at that time, which was roughly about \$145 billion. So based on the \$145 billion target and the target of where the baseline would be, our goal was to try to see if we could then try to achieve a deficit close to the \$200 billion.

We were looking at a \$357 billion base line deficit. Our goal was to try to grind that down as much as we could and to try to move it beyond that. That was the focal point for the discussion that took place.

We also discussed how would that impact the economy, what kind of reaction would we get in the Fed if we produced this level of package. It was a question knowing that we had to, in order to reach a target of cutting the deficit by \$140 billion, we knew we were talking about almost duplicating the level of deficit reduction that was in the Budget Agreement.

So it was then at that point that we basically began the walkthrough. We walked through all the spending proposals as we did in the Budget Committee. We walked through all the spending proposals first, walking through every area and considering every option. It was only after that that we began to look at the revenue side.

Mr. BEILENSEN. You don't mean to say—I hope—that there are not further cuts that might rationally be made?

Mr. PANETTA. I would welcome your recommendations with regard to any additional spending savings.

Mr. BEILENSEN. This isn't very helpful advice, but as I said, there are some of us on our side of the aisle and I am sure a lot on the other side who would like to encourage the administration to go further. Politically, I am not sure that is feasible at this time, but I hope we don't stop here.

Mr. PANETTA. There are not too many areas that haven't been touched here. I am more than pleased to have your recommendations, but the one area that obviously is an area that we have looked at a number of times is the whole area of retirees and that

is extremely controversial if you are going to move to a COLA reduction or limitation.

Beyond that, we have touched social security. We have touched health care and medicare, veterans, farmers, the middle class, the wealthy, businesses. We have touched almost every program in the functional areas. So again I am more than happy if somebody can give me some specific recommendations—

Mr. BEILENSEN. We can, but we don't want to get you in trouble. You have a tough enough row to hoe. There are some things that could be proposed that go further than what you suggested.

Mr. PANETTA. I would welcome those suggestions.

Mr. BEILENSEN. We will do it privately. You said earlier, this is again sort of a leading question and you may not want to be led down this path—you said at the outset of your testimony and reiterated, we asked for a contribution from everyone. That, of course, is important. It has to be seen to be equitable and fair, but if I may say so, I think it is fair to say we are not asking an awful lot of most Americans.

People gripe about this and the Republicans are clearing their throats getting ready to assault me perhaps—I hope not—take it out on me, but we are not asking a lot of most Americans. 98.8 percent of all Americans will not be affected by income tax proposals in this. I take it that the average American will be affected by tax increases of \$200 a year. An across-the-board energy tax would affect them. Is that all?

Mr. PANETTA. That is correct.

Mr. BEILENSEN. We are taxing energy at one-fourth the rate or less than every other industrialized country in the world taxes energy. That is the only contribution the average American is going to be making, is that not true, with respect to additional taxes?

Mr. PANETTA. On the tax side, you are correct; basically 70 percent of the contribution on the tax side would come from those earning \$100,000 or more. Below that, the impact is—since we don't do anything on the income tax rates the impact at those levels would be largely as a result of the energy tax across the board. We estimate that at \$120, for somebody earning \$40,000, \$120 a year.

Mr. BEILENSEN. That is not a lot to ask of the average American family to help get his or her country back in decent economic shape.

Just to give you my own perspective, this Member along with a few colleagues, just came back from Eastern Europe. It is touching—there are people there who have come out of 50 to 70 years of Russian domination. They are struggling to put together a society. Their economies are in shambles. They have inflation and unemployment.

Your heart goes out to them, past adversaries, trying to get a grip on life and put their societies together. When you come home and you hear people complain in this greatest and richest of all countries having to pay between \$100 and \$200 a year in additional taxes so that the standard of living for their children might not be quite so low as it otherwise would be.

We have been doing this immoral thing for the past 12 or 15 years, refusing to tax ourselves at a rate great enough to pay for the programs that we are demanding from our government and putting the burden immorally, I would say, on our children and our children's children, I don't have a lot of patience. I know that is not the way the President would put it. He is far more politic about this than I.

I think Americans should face up to the fact that we have a lot to do. We are not asking an awful lot of most of them. We are asking something of those who did awfully well in the past 10 or 15 years.

I represent the most affluent district in the country, and I don't mind saying publicly some people should be paying more in the way of taxes. Those are exactly the people you are asking to pay more in the way of taxes and I frankly find nothing in this package of taxes that is the slightest bit offensive and I frankly think you should and you are going to have to, with respect to funding health care, go somewhat further.

Thank you very much. It is good to have you here.

Mr. McMillan?

Mr. McMILLAN. I thank the Chairman and welcome, Leon.

You have talked a lot sitting in this chair over the past 2 years about the necessity for leadership in the White House and I think the President is trying to exercise that and I think you are trying to exercise that. I don't think you got quite what you would like to have seen in this proposal and I hope we can move this more in a direction where some on this side of the aisle can find that they can support it.

This is a party committed to minimizing tax increases and spending restraint. Maybe in that spirit we have a contribution to make in that respect. I certainly hope so.

One of the things the President stressed was honest numbers and he made a significant point last night about using CBO numbers, but he also made points about the magnitude of the deficit being substantially greater than what we thought it was earlier.

I have put before you CBO's testimony before this committee on several different occasions which includes August 1991, January 1992, August 1992, January 1993 which outlines the deficit projections and certainly we all had access to these numbers. We talked about them.

The differentials in the years 1993 and 1994 as I read them is as follows; that the deficit was expected to be \$21 billion less in 1993 than was originally projected in August and then in 1994 it will be \$23 billion worse. That is about awash for the most part. It is a shifting of outlays from 1 year to the next.

There is a differential in 1995 of \$40 billion and a differential in 1996 of \$33 billion and in 1997 of \$29 billion, but I would suggest that those differentials are not sufficient to justify abandoning a commitment to half the deficit in 4 years. I would leave it at that.

My other question, since you have made a commitment to use CBO numbers, since the latest CBO number on the deficit we have is outlined in the sheet, why aren't they the same ones projected in the information that has been provided us this morning?

If you could give us a fairly short answer on that, there are other things I would like to get to and we could discuss that further.

Mr. PANETTA. On the specific baseline itself, we have used the CBO projections with regard to the economy. What varies here is the methodology between CBO and OMB on looking at revenues that flow into the Treasury. They use different estimates of revenues. So what you have to do is revise their projections based on the revenue estimates and we have used Treasury Department revenue estimates and that is what brought us roughly to the point we present there, which is instead of 357 we are now at 346 in terms of our base line.

Mr. McMILLAN. I would get back to the President's comment, which I think was a valid one—let's agree upon the numbers that we are going to use so that we can all make decisions about public policy and not hide behind differences in statistics.

I am not accusing you of that, but it is a game that goes on around here. I as one who would like to make sensible public policy would like to at least have the other side in the debate agreeing that okay here are the numbers we are talking about. We may disagree on what to do about them, but at least we understand what they are.

Mr. PANETTA. The issue is more a technical issue of how you account for revenues and how they flow in. The concern is we ought to reflect the latest Treasury estimates as part of the baseline.

If you went to CBO's numbers, I would tell you that our deficit number would be much lower in 1997. We tried to err on the conservative side by saying instead of just doing CBO revenue estimates—

Mr. McMILLAN. I think that is a good psychological approach to it, but I think we will be better off if we can get by that—otherwise we will sit here arguing about what is accurate rather than about what public policy is.

Mr. PANETTA. The last thing you want to do is to get into technical estimates on revenues. There are only about two people who understand what is going on in that area.

Mr. McMILLAN. I am one of those on our side who voted for the Budget Summit Agreement. I have been pilloried about it for one reason or another. The magnitude of the tax increase in that proposal was about \$30 billion a year I think, which was probably one-half to less than what you are proposing here, which will probably reach a magnitude of some \$80 billion a year when it is fully in effect, so the magnitude of that is greater.

I was willing to do that, not because I wanted to raise taxes, but because I thought we had an agreement that would cap the rate of increase of spending. It did do that fairly effectively on discretionary spending. It totally failed on mandatory spending or the existing entitlement programs.

We discussed that extensively in this committee. That brings me to the next point. Your proposal here includes in the figures that you gave us \$38 billion aggregate reduction in medical or health care costs. I think if you totaled it through 5 years, it is more like \$60 billion.

The President last night said we want to come up with a health care plan that limits the rate of increase of health care costs to the

rate of inflation. I have calculated that because I am probably going to propose we do that as a means of achieving a supplemental reduction in spending.

If you do that, you achieve savings of \$310 billion over 5 years instead of \$60 billion or almost 5 times as much, which would on top of what you have proposed essentially balance the budget.

The question is, are we going to be able to address the real cost consequences of health care reform as a part of this budget process or are we going to be pushed into moving ahead to deal with these tax increases and the minimal spending reductions in the absence of what is the most crucial issue that we face and that is health care costs are out of control and they are impacting this budget and impacting every private citizen in America?

Mr. PANETTA. You have expressed yourself on the health care issue many times. The President shares your same concerns about how we control that. We faced a dilemma as we were trying to develop this budget proposal. I didn't want to establish a black box, do a number and just grab it out of the air and say "Here is our health care number and therefore that is what we are going to reduce the deficit by" because we don't have a health care proposal on the table. That needs to be developed over the next few months and that will determine what we do about costs controls on health care across the board.

So rather than just grab a number, I tried to look at an area that is within our control, medicare, and to define cost savings in medicare that are valid that we think make sense.

We extended some of the controls included in the Budget Agreement. There are others that can be done as well. The recommendation is that we ought to make a down payment on health care reform by trying to achieve health care savings in the medicare area and hopefully once we do health care reform overall, we can look at broader savings.

When you are doing health care reform, the problem you face is can you commit some of those savings to deficit reduction or are you going to use some of those savings to basically expand coverage to those not covered now. Until that program is put together, I think it would be wrong to just pick a number out of the air and put it here.

Mr. McMILLAN. I think we will be into the debate on health care reform maybe before we consider the budget. I would take the President at his word that he wants to see a health care proposal that would limit the increase in health care costs to the consumer price index plus demographics. I know that has to be phased in over time.

If we are committed to do that, and he will get backing from me, then we have a chance of really achieving far more deficit reduction than has been proposed in this document.

I look forward to working with you.

Mr. PANETTA. As the graph showed, we still have to do—it can't all be done on the health care side. If you want to expand, if you also want to cover people caught in the gap and if you are trying also to expand coverage to universal access, it is going to be very difficult to commit those additional savings to deficit reduction. So

you have to start with the down payment which is this \$500 billion package.

If we can then work on a cooperative basis towards a health care reform measure, I am convinced that there should be some additional savings as well as a result of that effort.

Chairman SABO. Before I recognize the next person, Mr. Bryant, let me just indicate that on the schedule for next week we distributed to the members we thought we could get the Secretary of Transportation on Monday. He is not available, so we will not have a hearing Monday afternoon.

Our next hearing will be on Tuesday at 10 a.m. with Secretary of the Treasury Lloyd Bentsen. I think it is also obvious that we are not going to get through all the members today by 1 o'clock in terms of their questions. So for members who were here today and are on the list as having been here when the committee hearing started who we do not get to today—and if you are here on Tuesday when the committee starts, not late, but when the committee starts—we will bypass some of the more senior members in asking questions on Tuesday and move on down the list.

Mr. PANETTA. Mr. Chairman, if I could indicate we are going to try to see if the appointment I have at 1 o'clock can be moved to 1:30 or later so I can provide additional testimony for the committee.

Chairman SABO. I expect we will still have the problem. That is what we will do to try and accommodate more junior members.

Mr. Bryant?

Mr. BRYANT. I would like to say to the Director that I think you have done a great job and I look forward to supporting this. If we can make some improvements, fine, but I think the broad outlines are excellent and I would like to see us move forward and get it done as soon as we can.

I would like to point out to anyone who is a new observer to this process the interesting comments of Mr. Kasich, as well as Mr. McMillan and others, suggesting that somehow, if only Mr. Panetta had had his way, they would have supported the administration's budget, but that somehow evil forces got hold of Mr. Panetta and watered down the proposal and therefore they won't be able to support him. Let me say to those people that Leon Panetta got his way here, and he didn't get a vote from that side of the committee for any proposals he made.

The remarks were calculated in advance to attempt to make this courageous proposal by President Clinton and Mr. Panetta seem less than it actually is.

I would like to suggest and ask at the same time if it is not possible to further enhance the amount of deficit reduction in the plan by examining an area that I frequently brought up during Mr. Panetta's chairmanship. According to the Defense Department figures, we still spend about \$180 billion a year basically defending Europe and Japan now—how many years has it been, 47, 48 years since World War II ended. It is a responsibility which we have been willing to shoulder, but the cost of which I think it is harder and harder to rationalize shouldering.

I wonder where the administration is with regard to that problem?

Mr. PANETTA. We had, as you know in the defense authorization bill last year, a requirement to increase burdensharing, a small step, but it was basically the requirement that our allies ought to meet the same formula of the Japanese with regard to their contribution.

In addition to that, in order to meet the numbers here—and I think you can ask the Secretary of Defense that more specifically—it is our feeling that you are going to have to provide an additional contribution with regard to burdensharing in order to meet the defense line that we have established in this proposal.

So the answer to your question is A, there is going to be some additional burdensharing as a result of the actions of the Congress last year, but I think we will have to take steps even beyond that in order to meet these numbers and I think the Secretary will indicate that.

Mr. BRYANT. Could we not take dramatic enough steps in this area to further increase the deficit reduction? It seems it is an enormous amount of money that is not justifiable, that the American people would support a cut in and we ought to take advantage of it.

Mr. PANETTA. Recommendations that would involve increased burdensharing that flow through the defense budget, we would be willing to look at those kinds of recommendations.

Mr. BRYANT. We are going to offer some up for you to look at.

No further questions, Mr. Chairman.

Chairman SABO. Mr. Kolbe?

Mr. KOLBE. Thank you, Mr. Chairman.

Mr. Panetta, welcome back to the committee. I would like to make one thing clear. In the outset, you said in your opening remarks that you wanted this to be a bipartisan effort. I appreciate that, but I think it is only fair to point out that there has been no consultation with any Republican on the Budget Committee, or as far as I know any Republican in the House of Representatives, no asking of information.

I realize you don't need to do that. You have the votes in this committee on the opening day of the committee. The Chairman made it clear the Majority would simply ratify the administration budget proposals. I think that is acceptable because I think the Majority should be accountable for the proposals that are here, but let's not talk about it as a bipartisan effort because there has been no attempt to be bipartisan here.

One of the things the President has said is in order to do this, he needs to be trusted and we need to have credibility. He said that one of the reasons he has not been able to carry through with a middle-income tax cut is that the deficit is much larger than he had anticipated.

However, in an interview he gave June 23, when asked about the deficit, he said "When I began the campaign, the proposed deficit was shows \$250 billion. Now it is up to \$400 billion."

On page 22, your own deficit figures show \$332 billion for fiscal year 1994. How is it that he was misled about the deficit or didn't understand that the deficit was going to be larger than what had been anticipated?

Mr. PANETTA. Again, I assume that during the campaign they were largely relying on the CBO projections as to where the deficit was going. Those projections were generally more moderate. It was actually OMB that produced under the Bush administration projections that the deficit was going to be \$50 billion larger, then based on where CBO was it was almost \$100 billion larger.

The bottom line here is that wherever you are coming from on these numbers, under any objective analysis, the deficit has gotten worse than we thought it would be. We thought as a result of implementing the budget agreement, that we would be able to see \$250, \$260 billion deficits. As a result of the deterioration in the economy, both in terms of revenues as well as what happened with the S&L crisis as well as entitlements, we have seen the deficit deteriorate a lot more rapidly.

Mr. KOLBE. It was not \$400 billion, even by your own estimates this year, which was the figure that he was using last summer. So when he was talking about, and the next question goes to his promise of a tax credit for children, he was assuming that we were looking at a \$400 billion deficit. I would like to talk about some of the cuts.

One of the more frustrating things about this is use of this Orwellian language that we talk about tax cuts as contributions here and we have the taxing of income of social security recipients as a spending cut. I wonder whether your revenue increases in the natural resources area of royalties on mining, grazing fees, recreational fees, whether those are calculated under your revenue increases or under your spending cuts?

Mr. PANETTA. We are using basically the traditional scorekeeping approved by the Bush administration, Republican administrations, and CBO and OMB. Those fees are listed as entitlement savings and have always been.

Mr. KOLBE. So this income tax the social security recipients will pay is a spending cut?

Mr. PANETTA. It is a benefit reduction by virtue of doing that. Since it is an entitlement program, that is the reason for it. If we had reduced COLAs, the COLA amounts would have been counted as a spending savings.

Mr. KOLBE. I believe in the past you will find that those revenues that come from senior citizens that pay taxes are put on the revenue side not on the spending cut side. So I don't believe it is accurate to say that is a spending cut.

Mr. PANETTA. You can list it wherever you would like. I am not going to get wrapped up in whether you list it as a spending cut—list it wherever you want, because however you do it in the out-years, spending reductions still exceed revenues. But the point is, let's get the policy done. If you believe that the policy ought to be accomplished, let's get it done, because it does involve some savings to the deficit.

Mr. KOLBE. The 2.5 cent gas tax that will continue after 1995, does that go to the general revenue fund or the highway trust funds?

Mr. PANETTA. That extension would continue to go into the general fund.

Mr. KOLBE. So it will be the general fund that will pay for the infrastructure improvements, not the Highway Trust Fund?

Mr. PANETTA. No; the Highway Trust Fund would continue but we would have to face the concern about what we do with the Highway Trust Fund.

Mr. KOLBE. As I understand it, there have been changes in the way you would calculate family income. The tax proposals, adjusted gross income would include, among other things, imputed rent on owner occupied housing. That means that a senior citizens who has saved and paid off their mortgage will have to include an imputed rent when they calculate whether or not they are going to pay taxes on their social security income?

Mr. PANETTA. If I could have a recess for a moment, I have to respond to a phone call and I will be right back.

[Pause in proceedings.]

Chairman SABO. You remember the question?

Mr. PANETTA. I was going to ask the question to be repeated. For those that are interested, that was the President of the United States calling to thank those that had worked, myself and those who have worked on the National Economic Council for the work that had been done on the plan. He is encouraged about the public reaction and is anxious to take the next step.

Mr. KOLBE. In the brief break there, I got additional information. The issue may not be the calculation of the tax liability but the new distributional tables distributed may go to the question of who is really paying the taxes, so it is an esoteric argument and I won't pursue that.

Looking at some spending cuts that you had endorsed in past years, including cancelling the Space Station, cancelling the superconducting supercollider, they are no longer there. Instead we are looking at things like freezing the Appalachian commission and fertilizer research in TVA. Is this our idea on tough decisions on budget cuts?

Mr. PANETTA. It is pretty tough if you come from the Tennessee Valley. It is also community development. The Appalachian Commission—you have been on the Appropriations Committee. Every time you try to target these kinds of programs, there are always those who will defend the programs. We need to try to achieve savings.

Look, you yourself have refrained from looking at COLAs and the retirement program because of your concern in that area. That is big savings but you have concern about whether or not the elderly ought to be impacted with something like that. You would be the first to say don't do it.

Mr. KOLBE. I am prepared to look at all of that, but you should be talking about spending cuts before we start taxing middle America.

Thank you, Mr. Chairman.

Mr. PANETTA. On the space station and the supercollider, I think it needs to be understood that while the President is committed to a space station, and obviously there are some reasons in terms of the Space Station for the kind of science that is associated with the kind of testing that would go on with humans in space, there is an

important mission here, but the concern he had is the concern we all have, \$500 million in cost overruns.

So the effort here is to try to redesign the space station so we can avoid those kinds of cost overruns. That is a significant step when you are dealing with kind of a mentality that you can't touch anything when it comes to that kind of operation. The President has basically said it ought to be redesigned and with the supercollider, that it ought to be stretched out until we have good information about the technology involved there.

I think this is a very important step because it is going to give us the opportunity to try to hold on to the cost escalation that has gone on with those projects. If Congress in its goodwill wants to move even further, I am happy to work with you.

You raised the issue of cooperation. As Chairman of the Budget Committee during 12 years of a Republican administration, I was never asked down to the White House to help develop the budget, was never called and asked to be consulted on it. When you are trying to put together a budget resolution and a budget plan in this amount of time, you have to basically work through the process with the President and with the key players of the National Economic Council. That doesn't mean that that is the end of the process. This is the beginning of the process; it is not the end. I hope to reach out to Republicans and Democrats as we try to work our way through it.

You have a lot of work to do here. The plan is now presented to the Congress. That is a process that is going to involve a lot of give and take. If you suddenly say on one side of the aisle you are not going to cooperate, you are not going to participate and try to deal with the issue, you will not get a lot of cooperation. If on the other hand you say there are areas that can be changed and some recommendations, I am more than willing to work with you.

Chairman SABO. Mr. Parker.

Mr. PARKER. Thank you, Mr. Chairman.

Leon, I don't want to ask a lot of questions. The only thing I want to know is this: One of the problems we had, when you left here January 1, we were talking about \$2 of cuts for every dollar of taxes. That is what we were talking about. The biggest problem that I have with the whole package, I could nitpick it to death, but the biggest problem I have is that the spending cuts are not as much as I would like to see.

My point is, in the former administration the inflexibility of the President was phenomenal. He only got flexible in October of last year. Exactly how flexible is President Clinton going to be, because that is going to determine exactly how much room we have to maneuver and there are a lot of us that are going to want more spending cuts involved in this package.

You have done a good job putting this together in that short period of time. There is more room there. You take the ditch in Texas, I am ready to address that. How receptive are you going to be and how will the process work to make sure that we are all on the same wavelength and we can get something put together?

Mr. PANETTA. The important thing I think is to look at the comprehensive plan itself because it is not just a piece that is devoted to deficit reductions, it is a piece devoted to trying to target invest-

ments where we need to make them and targeted to the weaknesses in the economy.

The President is very committed to a comprehensive plan. If there are suggestions about how some funds can be shifted in one area to the other without seriously undermining the goals that the President has set out in each area, then I think this has to be a cooperative process. I will tell you the truth; out of all of the debate I heard, and I watched members reacting to the plan last night, and some said there are not enough spending cuts, I never heard one member say what they want to cut or where we ought to achieve additional savings. Not one.

Supercollider and space station, that is \$2 billion. We are talking about trying to reach somewhere between \$400 and \$500 billion, so it has to be significant savings that you achieve.

Mr. PARKER. The President said last night, "be as specific as I have been as far as the cuts," and I thought that was a significant statement for him to make and that is what I plan on doing. I think there are a lot of us that plan on being very specific. We are going to be so specific that there are people on both sides of the aisle that won't like it because we will be much too specific for them in their districts, but I think that will be coming.

Mr. PANETTA. I will welcome that debate.

Chairman SABO. Mr. Shays.

Mr. SHAYS. I happen to be a Republican who would like to vote for a deficit reduction package. I think most Republicans would. It is a question of how much taxing and spending cuts, but you are going to lose people like me if we don't see more spending cuts. Page 22 of the document you gave us, I'd like to ask specific questions.

The social security, that I see is a spending change. It says social security minus 3, minus 6, minus 6. Are you counting that as a spending cut, a tax increase?

Mr. PANETTA. You can count it any way you want. We have listed it here because we view it as a reduction in benefits and traditionally, whether you do it or COLA reductions or on the benefit side, you list it on the spending side. You can list it wherever you want. The question is: Do you want to do it?

Mr. SHAYS. You asked my ranking member if I would vote for taxing people at 36 percent. I will. You have my vote if I see spending cuts and I will vote for an energy tax but I want to see spending cuts. That to me is a tax increase. I am sincerely struggling with understanding what is the net spending cut in that package.

Let me compliment you for using CBO numbers. I think that is a straightforward thing. I have a problem with social security because I don't think it is straightforward. My constituents are going to say to me, "Are you going to vote to tax me on social security?" I have to give them an answer. I am not going to say it is a spending cut. If you would run through the net spending cuts.

Mr. PANETTA. If you look, for example, at the last column in terms of 1994 to 1998, you have a total there of \$704 billion in gross deficit reduction of which \$375 billion of that comes from the spending reductions. And again, if you want to eliminate social security, which is 29 out of that number, that brings it down from 375 to 346. You have got 328 plus 29, that is roughly 357 then that

you have on revenues. That would still get your bulk figure of \$704 billion.

Of that—the investment package is \$231 billion with the investments that we have targeted and that gets you your net total deficit reduction of close to \$500 billion, \$473 billion. I think the numbers pretty much speak for themselves.

Mr. SHAYS. You are going a little too quick for me and the numbers will speak for themselves. Let's just take spending. How much stimulus are you spending and how much cuts are you making? I would like to see that number. Forget the revenue.

Mr. PANETTA. The total investment package is right there, between 1994 and 1997, \$169 billion.

Mr. SHAYS. That is spending, \$169 billion of new spending. What is the total gross cuts that you are making?

Mr. PANETTA. For that year, it is \$493 billion.

Mr. SHAYS. Of cuts?

Mr. PANETTA. Gross cuts, we would say that that is about \$237 billion.

Mr. SHAYS. If I take 237 and subtract 169, I am going to get to what I consider is net cuts in spending over those years. My question is: Is that a number that I should feel is—you know, we are talking less than \$100 billion.

Mr. PANETTA. Don't forget that 60 of those investments that you counted come from tax incentives that we provide to small business.

Mr. SHAYS. But the number you gave me is 347, 169.

Mr. PANETTA. Of the 169, 60 of that is tax incentives.

Mr. SHAYS. It is basically a hundred, 147. You are counting social security tax increases. You said I could take it any way I want. I know what my constituents will call it. Are you counting social security as a spending cut?

Mr. PANETTA. When we increase fees, whether it is on grazing fees or in various areas like recreation, those are listed as savings.

Mr. SHAYS. How much of those social security numbers are here of the 247, \$23 billion?

Mr. PANETTA. Twenty-one billion is the number that it shows for social security between 1994 and 1997.

Mr. SHAYS. So I am looking at spending cuts of \$120 billion net in 4 years?

Mr. PANETTA. Again, if you have taken out the tax incentives out of that number, the issue is where are you winding up in terms of net spending savings, you mean on that side of it. I think you are roughly in that area.

Mr. SHAYS. Under the leadership of our ranking member, we are sincerely looking for spending cuts and have been given tasks and are going to come back to this committee with spending cuts. I believe there is willingness on the part of the White House to go along with some of what we are going to suggest on our side of the aisle.

Mr. PANETTA. I am more than anxious to hear specifics. I have heard a lot of talk. I would like to hear somebody say some specific programs that are going to achieve this level of savings. I don't hear that. The time has come to tell the American public where are we going to cut programs.

We presented a list, 150. We made it very clear. Everything that we suggest for reductions is listed in this book. There are no black holes, no caps, no phony baloney. It is all here. What I am interested in is for all of you to give me a list of specific reductions. I am more than happy to look at that list.

Mr. SHAYS. I am going to take that on good faith and I appreciate your cooperation and the cooperation of the Chairman.

Thank you.

Chairman SABO. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Leon, welcome back. It is wonderful to see you and especially good to see you in this critical role as we attempt to answer the President's compelling call to arms last night. I have a couple of rather narrowly focused questions which I would like to pose and then a broader question.

On the narrow side, what is the rationale for that 85 percent figure on taxation of upper income social security recipients?

Mr. PANETTA. The initial step was taken as part of the effort to reform social security. And the effort there was to basically subject at least a portion of those benefits at the higher income levels, at least a portion of those, 50 percent of those benefits to be subject to taxation.

The argument was that since retirees in other areas—civil service and military retirees have 100 percent of their benefits subject to taxation—that it made sense to move in that direction with regard to social security. Obviously, thresholds were established at \$32,000 per couple and \$25,000 per individual.

There have been recommendations not only to increase the amount subject to taxation, but also to lower those thresholds. That recommendation was rejected during discussions we had but we felt there was merit in moving from 50 percent to the 85 percent figure. Fifteen percent is assumed to be direct contributions from the individuals themselves into the funds and, therefore, you are not trying to tax the amount of direct contribution that people make—

Mr. PRICE. Average direct contribution that has been made?

Mr. PANETTA. That is correct.

Mr. PRICE. The rest you are subjecting to the same tax treatment as other pensions would be?

Mr. PANETTA. That is correct.

Mr. PRICE. The second question has to do with the budget caps that are now existent. Where do your 1993 to 1995 proposals leave us with respect to the budget caps?

Mr. PANETTA. We stay within the caps for 1993. We use the amount that we were able to save last year largely in the defense area. So the \$16.2 billion in budget authority is within the caps and we hope that Congress will stay within the caps for 1993. What we will have to do is probably designate the stimulus program as an emergency because we don't want to get into the problem of moving money through the walls and fighting that battle.

In 1994, we stay within the caps. We have a slight problem on outlays, but it is our hope that when we present the budget, the full budget in March, that we will be fully within the caps for 1994.

In 1995, we are within the caps on BA, but we have an outlay problem of about \$10 billion. If this package passes, it will basically revise the caps for 1995 through 1996 and 1997 and basically will then be within the newly established caps at that time.

Mr. PRICE. Finally, I would like to return to what you touched on in the last minute of your testimony, the deficit projections for 1993 to 2003 under different scenarios. I felt one of the strongest points of the President's presentation last night was not just lining out the plan in great detail, but also telling us why we have to seize this moment and why if we do nothing, the consequences are totally unacceptable, the consequences in terms of mounting debt, of strangling health care costs, of the preemption of the kinds of business we must be about as a country.

Your graph pretty well makes that clear, the kind of circumstances we face if we do nothing and also, conversely, the kind of economic future we can create for ourselves if we do seize this moment.

I would like to give you a chance to expand on that. You gave us a lot of detail, but what in your view is the most compelling justification for moving on this—a package of this magnitude at this particular moment?

Mr. PANETTA. We don't have any alternative. I understand that there are people that would like to hide from these issues and I can understand why. These are tough issues, whether it is on the tax side or on the cuts side. Representatives, and I was among you, we have a hard time going back to our districts and saying we may have to cut your benefit, we may have to increase your fee, we may have to increase taxes.

I think on this one, the American people are ahead of us. I think the American people for too long had heard presidents say to them, don't worry, everything is going to be okay. We can cut your taxes, we can increase defense spending and we can balance the budget all at the same time. It doesn't work. We know that. And the American people know that it doesn't work, so the time has come now to confront this issue.

I believe that if we just sit back, if we wrangle about how this package comes together, if we decide for one reason or another that it is politically acceptable to say we are going to vote against the package because that is the safest route and we continue on this path, make no mistake, we are walking towards the edge of a cliff. It may not happen tomorrow or next year or in a couple of years, but you can not run \$600 billion annual deficits with all of its consequences on interest rates and the bond market and on resources in this country and not have this country start to face a very serious crisis.

I don't want to gamble on that. I would rather gamble on this plan because it tries to reduce the deficit. This involves a risk too, but if we sit back and think that somehow the problem is going to solve itself, not only are we wrong but the American people are going to take it out on all of us.

Mr. PRICE. I agree; if we let petty partisan bickering stand in the way, history and our own children are going to judge us harshly indeed.

Thank you, Mr. Chairman.

Chairman SABO. Ms. Snowe.

Ms. SNOWE. Thank you, Mr. Chairman.

Welcome, Mr. Panetta. I think that we all are entitled to have questions and each of us who have been in Congress for some time, and I have certainly been involved in a number of deficit reduction efforts, have offered packages on the Floor, CBO scored from beginning to end, that would have made a difference, that we would not be in this position today.

The real issue is that the President did miss an historic opportunity to embrace serious and bold proposals on deficit reduction. It is up to the President too—he is responsible for coming up with proposals and then Congress responds, and that is what we are doing today in trying to address President Clinton's budget.

The concern that I have is our ability to decide that taxes must go first rather than spending cuts. And the President said yesterday in his speech that special interests will attack his package. But I could also argue that, in the absence of serious deficit reduction, that special interests have already influenced this package.

You have suggested 2 to 1 spending reductions for tax increases and now it is less than 1 to 1. At the end of the day, if people are going to make a contribution as it has been referred to, then they deserve to have something that is very real. I see that at the end of 5 years we still have a deficit of \$206 billion; that is, barring anything else unforeseen that might occur, even other spending increases. They don't get a balanced budget, they don't get a deficit by half in 4 years.

We are getting a deficit reduction of 38 percent over 5 years, so when we are proposing tax increases, we have to make sure that we have done everything on the spending side. So I am glad to hear what you are saying about accepting proposals to offer on spending reductions because we really need to do that.

So I guess you shouldn't be surprised because, even you had suggested 2 to 1 on spending reductions to tax increases and now we have less than 1 to 1 and that may change in the process over the next 2 months.

Please respond to that issue, because that is a problem. Over the next 5 years, we will have less than 1 to 1 on spending reductions to tax increases. We could have emergency spending. Where does that come in? Our tax increases—are the revenues going to guarantee specific spending reductions? There is no linkage in current law. Is that going to change so we can absolutely make sure that doesn't happen?

Mr. PANETTA. There is linkage in a couple of ways. My hope would be that when you proceed with the stimulus package, consideration of the supplemental, that it could be tied to a budget resolution that will lay out specifics about deficit reduction. When it comes to reconciliation, it isn't a question of taxes going first, because reconciliation will include not only the taxes but the spending cuts as well, particularly in the entitlement areas. You are going to have to vote on both as part of a package.

I would also say to you that this is a serious effort with regard to spending reductions. We reduced defense spending almost \$60 to \$70 billion beyond President Bush. That is not easy. On nondefense savings, we achieve somewhere in excess of \$50 billion on nonde-

fense savings. I think all of us on both sides have interests in investments with regard to Head Start and WIC education and some of the human programs we care about.

Obviously you are not going to subject those to across-the-board cut other than nondefense. We have tried to trim things, better planning management in government. Entitlements, we have made important recommendations on savings that are tough. Agriculture recommendations are tough, with regard to targeting subsidies. Secondly, the recommendations with regard to veterans savings are not easy to do.

Thirdly, on medicare, those are tough when you talk about savings in the medicare area, particularly when it comes to providers, doctors, and hospitals. We have recommended a tax package to try to balance this. There is only one place you can go for significant savings above and beyond this, and that is with the retirees. If you are willing to do that, I am willing to listen to your recommendations.

Ms. SNOWE. It is interesting that you pose such either/ors. I suppose we could each do that with respect to the budget and we will be coming back with other alternatives. Many suggested cuts were cuts suggested by previous administrations that were not accepted by Congress. We have been over that and that is fine.

I think the issue is that we ought to be examining every area of spending before we decide to rely on tax increases. Obviously you thought that that could be done when you were being confirmed, because you recommended the 2 to 1 and now we are less than 1 to 1. That is obviating that anything will change over the next 5 years.

We could have other spending increases, not to mention emergency legislation and those tax increases included in the budget resolution language. But again that doesn't prevent any of the spending savings, any savings that we get in the future, from being spent under current law.

Mr. PANETTA. Again, I really do look forward to specific recommendations here, but I have the sense having been through this before, particularly last year on the balanced budget amendment. There are a lot of Members who supported a balanced budget constitutional amendment. When we made an effort to say how would you do that specifically and shouldn't we tie that to the debate on a balanced budget amendment, many of those who supported a balanced budget amendment said we don't want to talk about cuts on entitlements, what we have to do in nondefense areas, we just want to talk about a balanced budget amendment.

The time has come to put up or shut up with regard to spending reductions. That is what I am interested in hearing and I am more than willing to work with you. But don't talk to me in generalities. Let's talk about specific reductions that can be made. I am more than happy to sit down and deal with you.

Ms. SNOWE. I have not spoken in generalities and in the past I have offered budget proposals on the Floor which I wish you had supported. But we only got 87 votes. It was a budget offered that was CBO scored, but no one was willing to treat deficit reduction seriously. So we ended up getting Gramm-Rudman at the end of 1985 and we are in the position we are today.

I was a leader in the balanced budget amendment and we were prepared to sit down and begin the process as soon as that balanced budget amendment passed.

Mr. PANETTA. You don't need a balanced budget amendment to do this. You need leadership and you need guts. I think that can be done. I think you need to talk straight to the American people and now is the time to talk specifically about where those reductions need to be made.

People have hidden long enough on the issue. The time has come to talk about what do you want to do on defense spending, what entitlements do you want to cut. Of the entitlements, 50 percent are in social security and retiree programs, 30 percent are in health care programs. I want to hear your proposal how to deal with entitlement cuts.

Chairman SABO. Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman and thank you Mr. Panetta. I have for a long time been a fan of Leon Panetta, and I know how hard you and the President have worked on each of these areas, seriously trying to find real cuts, trying to find a solution that will pass the House and make significant deficit reduction. I do believe that we need to work even harder finding real cuts and in fact I agree with you, to either put up or shut up.

I have a specific recommendation which I filed October of the past year on reform of appropriations for foreign aid. Essentially it streamlines and eliminates duplications. For instance, we have the Voice of America, Radio Free Europe and a couple of other broadcasting entities which are duplicative.

It would convert ESF funds and military support from grants to loans so that rather than just giving money away, we would be loaning money to countries to do that. It would continue grants-in-aid for humanitarian and health purposes, food aid, et cetera. That saves between \$4 and \$7 billion per year. That is significant.

I would encourage you to take a serious look at that kind of a policy change. We have not changed our policy on foreign assistance for 20 years, in fact longer than that. I think that is a specific area we can look at. I have half a dozen others to send you as well.

I would like to hear what you think and I know you don't support a balanced budget amendment, which I do. You said put up or shut up. I have submitted a budget reform bill that changes the process by which we go through budgeting and budget enforcement designed to get us to a balanced budget with or without a balanced budget amendment. It includes such things as changing to a biennial budget, performance standards and sunset laws with enhanced rescission.

I know the President has adopted some of these issues and I would like to encourage you to take a close look at this comprehensive budget reform approach. I would like you to respond however you see fit with regard to the first two items I have raised. Also, I have two specific questions: one, where do you list the earned income tax credit?

You indicated in 1994 it is approximately \$6.4 or \$6.6 billion. I am wondering if that is included in the \$13 billion of tax incentives, which I do not believe it is, or if it is included in the investment outlays. If not in either one of those, where is it? I am on

page 22. I am wondering where in that breakdown the earned income credit lies.

Mr. PANETTA. It is on page 137, under rewarding work, the earned income tax credit which is listed as a tax incentive is the \$6.9 billion that I mentioned or \$6.6 billion for 1997. It is listed as an investment, but it would be labeled as a tax incentive as part of that overall package.

Mr. ORTON. Also, do you have tables—I see the table listing the total amount of revenue generated from different levels of income for taxpayers in the material you sent. I think it would be helpful if we could get breakdowns on an average family earning \$30,000 so we could see how much revenue is generated through income taxes, how much through corporate tax increases, how much through energy tax increases, and how does that affect a typical family.

Mr. PANETTA. Well—some of that material is contained there. To summarize, obviously as I said, 70 percent of the burdens here fall on those who earn \$100,000 or more with the biggest burden on those earning \$200,000 or above because we increase the upper rate to 36 percent plus add a surtax. They contribute the largest amount here.

Below that level, we don't touch the income rates at all so there is no increase from the income tax. The question is: How does the energy tax affect people? Looking at a \$40,000-a-year family, we estimate that the energy tax would have a consequence of about \$120 a year or somewhere in the vicinity of \$10 a month in terms of that impact.

The proposals were deliberately designed to try to improve the progressivity of our tax system overall. The lower two quintiles are not impacted and when you ratchet it up, it is clear that it is the highest quintile that bears the largest burden. And we feel they should because they did the best during the 1980's and have a responsibility to make a contribution.

With regard to process change, I have also submitted proposals when I was a Member of the Congress with regard to improving enforcement with regard to the budget. I would be more than happy to work with you on that effort to see if there are steps that could be done with regard to improving the process.

One of my concerns—and I respect those that proposed the balanced budget amendment and those that proposed other budget approaches—my only concern is that that not be used as a way to avoid the debate on these tough issues. The easiest thing here is to basically propose either a freeze across the board or a cap or approach that would basically say I am really serious about deficit reduction, but I don't have to tell you how we get there.

It makes for a great Rotary Club speech to go there and say how you are for the balanced budget amendment without interpreting what that means.

Mr. ORTON. I agree, and most of us supporting the balanced budget amendment believe that rather than an escape from real debate, it will force real debate, will require us to really sit down and deal with those alternatives.

Mr. PANETTA. You can continue to fight that battle. All I ask is, don't use it as an excuse for not dealing with this plan.

Mr. ORTON. Absolutely. Thank you, Mr. Chairman.

Chairman SABO. Mr. Herger.

Mr. HERGER. I want to join in welcoming our fellow Californian to this tough task. Many of us have admired the job you have done as Chairman of this committee in past years and your dedication to doing what we hear so much about, getting our deficits down and eventually achieving a balanced budget and living within our means.

My concern is the direction the President appears to be headed in. What he was saying during the campaign, seems to have changed over the last 8 or 10 months, from offering a tax cut to the middle class, evolving into tax increases only on those over a million dollars, then dropping to \$200,000, then \$100,000. The latest is \$30,000.

The direction on the spending side that we are evolving in also raises concern. Originally, in your testimony before the Senate you called for a cut of \$2 in the budget for every \$1 in tax increases. That again has evolved down to 1 and 1, and we heard earlier this morning as we looked at the actual figures, the figures that have been put out by your office and by the administration, that when we subtract out the amount of proposed increases in spending and the actual cuts that have been proposed, we actually come down to only \$2 billion in actual cuts for this upcoming year, while taxes are to be increased by \$36 billion.

We see that we have come a long way from the days of not taxing the middle class and a 2 to 1 ratio on spending cuts to tax increases to now being in reverse, what would amount to about a 18 to 1. So I guess I have a great concern about the direction that we are moving in so early into the administration. I would be interested in your comment on this, but I would also like you to comment on that within this context and looking at historically what the Congress has actually done, i.e., the Budget Agreement of 1990 that we agreed to, which was supposed to somehow get our budget under control, and even looking to our own State of California in which in 1991 we saw a tax increase of \$7 billion just for one state, if we look at the revenues for that next year of 1992, we see that revenues did not increase by \$7 billion. They actually decreased by a half a billion dollars for that year. I guess my question is, number one, I am concerned about the direction we are moving in rhetorically, and also I question whether tax increases are really going to help, are they really going to generate these revenues?

Should we be headed in this direction, and nobody knows better than yourself, being Chairman of this committee, but are we really going in the right direction the way we are evolving? I question that we are. I would be interested in your comment.

Mr. PANETTA. Well, I am not concerned about the direction we are moving in rhetorically. I am concerned about the direction we are moving in in the real world which is this direction right here in terms of where the baseline is headed on the deficit.

I think that is the problem. And the problem is how to confront that while at the same time trying to confront some very real problems within our own society that all of us are aware of. So how do you develop an economic program that deals with that array of

problems? I think that is essentially what the President has tried to confront.

You know, presidents in the past sometimes got trapped by comments they made during the campaign, and I guess read my lips is probably the best example of that.

This President, basically, said, I think in one of the debates, that he was not going to be trapped by a read-my-lips kind of commitment, and I don't think people basically want that. I think people say, look, a president gets elected. He has to confront the problems that face him, and he has got to take leadership, and he's got to try to do what he thinks is right in order to deal with those problems. I think that is what this President is trying to do.

This is a comprehensive plan. It tries to deal, obviously, with the need for deficit reduction. That has to be balanced between spending savings and revenues. I think this is a balanced package as it moves through the 4-year period. Admittedly, there is some shifting in the early years because we still have a weak economy. But I think that we do achieve the kind of balance that needs to be achieved here.

Secondly, I realize that there are concerns about do you need this level of investments? And yet I guess I would ask you the same way I would ask you on the spending side. I would like to know what parts of this program on the spending side that you don't want included.

Should we not fund the highway bill that the Congress passed? We ask to fully fund that.

Should we not do that now?

Should we not fully fund the WIC program or the Head Start program having made the commitment that those are good programs? Should we get rid of that investment?

Should we get rid of the earned income tax credit to try to help working families? Is that an area where we can cut back?

Should we get rid of the crime initiative that we try to establish to try to improve the effort at helping law enforcement in this country?

What about health care? Should we do away with the effort to try to improve women's health care? Should we do away with the effort to try to improve AIDS research?

What about the private sector incentives? The Republican party has always supported private sector incentives. Should we do away with those? Those are spending proposals because they are going to cost revenues.

Again tell me where on the investment side you would like us to cut back because that is the debate we need to have here. These are not easy decisions, but we face some very real problems in our society both on the investment side and on deficit reduction side. That is the balance we are going to have to walk.

Chairman SABO. Thank you.

Leon, you have a telephone call I am told you have to make, so we will take a short break for you.

Mr. PANETTA. Another one?

Chairman SABO. Yes, another one.

When we come back, Mr. Frank will be next to ask a question. But I think you need to take this opportunity to make that phone call.

Mr. PANETTA. Thank you.

[Recess].

Chairman SABO. The committee will come back to order. Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

I was interested in the comments of the ranking minority member about the whining Texans who were supporting the space station. I thought that was a rather unkind way to refer to President Bush so recently after he left office. He was, in my recollection, the leading Texas supporter of the space station. I think a little more dignity would have been appropriate.

But I will join Mr. Kasich in his amendment to undo the space station, the manned space station. I think it is kind of a waste.

I wanted to talk about the spending-tax ratio issue. I agree with the point that the Budget Director is making about people who need to be specific. I would say at this point when he invites people to be specific I wonder why some of the people who are so enamored of cuts haven't been making them before. I guess I have been less attentive than I would have thought because I have been here 12 years and, apparently, there were all these motions to cut appropriations bills, and I must have spent a lot of time in the men's room because I never heard them. I guess they must have come when I wasn't there.

Because, under the rules as I understand it, the appropriations bills rarely, if ever, came up under a closed rule, and an amendment to cut an appropriations bill simply to reduce appropriations is always in order. There is no germaneness problem.

I think back and I guess there were all these Members who had all these cuts they wanted to make, and somehow they couldn't make them. I don't understand what was stopping them. Maybe we have to have the room swept to see what force kept Members from getting up on the Floor and saying, I move to cut appropriations so and so by so much money. Because I can't think of anybody who has been here for any period of time who hasn't had a great deal of unrestricted opportunity to offer amendments to make cuts in the appropriations bills.

I am for further cuts. I agree with the gentleman from Texas who talked about the burden sharing. I agree with the gentleman from Ohio about the gentleman from Texas and about the importance of cutting the space station. I will vote against the Super Collider and other cuts.

But I did want to say I want to take exception to the notion that spending is automatically bad and tax cuts are automatically good or vice versa. People have said, well, first we have to do all the spending cuts, then do the taxes.

Some of the tax proposals here seem to be quite sensible and reflect the right values. For instance, the question is should we raise the rate on people making more than \$250,000 as I understand it, the marginal rate. It would be for that share of their income that exceeded \$250,000 they would be taxed 5 percent more on that, from 36 to 41 percent.

When you talk about taxes as automatically bad and spending cuts as automatically good what you are saying is inoculating children or cleaning up a Superfund site or funding Head Start is a bad thing, but taxing someone and not taxing someone making \$250,000 to pay for that is a good thing.

So I don't want to subscribe to this notion that taxing and spending are automatically the goods and bads. As a civilized society to the extent we can spend individually that is a good thing, but there are some very important social goals that simply cannot be realized collectively.

The President said last night he wants to put 100,000 more policemen on the streets. Well, there is no way we can individually do that, and taxation seems to me to be an advantage.

So this notion that everything that represents spending is somehow a bad thing I think is an unfortunate one. I welcome, again, some of these cuts. My own sense is that it will be very difficult. In fact, it is easy to predict that the administration will be criticized by people for spending cuts in general because of spending cuts in particular. There will be people very unhappy about some of the spending cuts. Nothing will stop anybody from making those proposals in the budget or elsewhere.

Finally, on the balanced budget I would notice that as I understood the balanced budget amendment of last year it would be irrelevant to this because it wasn't going to take effect until 1997. So the balanced budget amendment, had it passed, would not have relieved us of the obligation of doing any of this because it simply was a firmer mandate to do this. It may have mandated we do 10 deeper cuts. I would be interested if the people who voted for the balanced budget amendment last year if they would show us the path that would have achieved balance by 1997. I think that would be very difficult. So I am pleased with the mix.

There are a couple of individual things I don't like. I may vote to try and change some of them. In general, I think the thrust is the a good one. I am for some further spending cuts in space, in the Super Collider and a couple others. And I will be watching to see what other cuts people propose, but I think I am going to predict that spending cuts have peaked in popularity. I think spending cuts will be more popular on this day of general endorsement than they ever will be again during this Congressional session.

And since that wasn't a question there is no reason for you to respond unless you want to.

Chairman SABO. Mr. Smith.

MR. SMITH OF TEXAS. Thank you, Mr. Chairman.

I am going to respond briefly to the point made by Mr. Frank. I don't want to say anything without his attention real quickly. He challenged us to use the amendment process on the appropriations bills to recommend cuts.

I am just going to remind my friend that last summer I offered six amendments to various appropriation bills to cut very relatively small amounts of overhead spending a total of \$142 million. Five of those amendments did pass. They were supported by a majority of Republicans. They were opposed by a majority of Democrats, though we had sufficient numbers to pass those amendments. I suspect we will be back.

Mr. FRANK. Will the gentleman yield?

Mr. SMITH OF TEXAS. Be glad to.

Mr. FRANK. I congratulate the gentleman, but the Budget Director was talking about \$142 million, and you wouldn't have proved very much. You made my point. You had the opportunity to offer the cuts. I am glad you offered them.

Mr. SMITH OF TEXAS. I will reclaim my time.

Your point was no efforts had been made. I am saying efforts were made.

Mr. FRANK. He misstated my point.

Mr. SMITH OF TEXAS. Let's continue on.

Chairman SABO. Will the gentleman yield?

Mr. FRANK. You misstated my point.

Mr. SMITH OF TEXAS. Let me go to Mr. Panetta real quickly.

Let me read you an urgent AP wire story that just came across a few minutes ago: "New budget documents show President Clinton will fall a little over \$170 billion short of his deficit-cutting goal. The President said that his plan would cut the deficit \$493 billion over the next 4 years, but a detailed budget document released today shows the actual budget savings will be more like \$325 billion."

The reason is, President Clinton's proposals in new spending and tax breaks will eat up more than two-thirds of the spending cuts he also wants. President Clinton did not mention that factor in his speech, and the detailed documents weren't available to reporters until today.

Less than a month after he was sworn in, President Clinton changed a \$60 billion tax cut for the middle class to a tax hike for the middle class. Now, less than 24 hours after his speech last night, a \$493 billion deficit cutting plan is changed to a \$325 billion plan.

Are those figures true and, if so, it looks like we have been misled again. I certainly hope not.

Mr. PANETTA. I don't think that is the case at all. I think that is a regrettable story, frankly, because it simply is not true.

The fact is, we achieve in deficit reduction for the fiscal years 1994-1997 a gross number of \$493 billion. That isn't done through smoke and mirrors. To get to \$493 billion it involves specific decisions on defense, on non-defense savings, on entitlements and on taxes.

Mr. SMITH OF TEXAS. If I may interrupt—the gross savings, not net savings. What are the net savings? Are they \$325 billion or \$493 billion?

Mr. PANETTA. The President has always said the plan involves three steps. Obviously, one is the stimulus. The second is investment. We have to pay for whatever investment we make back in our society. And we have to achieve deficit reduction.

The total amount of deficit reduction you have to achieve in order to make room for the investments is \$493 billion. That is real. Nothing phoney about that. That is real. Same thing is true with the \$700 billion.

Mr. SMITH OF TEXAS. Is the \$493 billion net savings a \$325 billion net savings as well? Which of those two figures is correct?

Mr. PANETTA. They are both correct. The \$493 billion is the total gross deficit reduction in real terms.

Mr. SMITH OF TEXAS. So the net deficit reduction is \$325 billion.

Chairman SABO. Let him answer the question.

Mr. PANETTA. Let me respond—you have the gross amount of deficit reduction that you have to achieve and that has to be done in real terms. You then have the investment which is paid for. That then gives you the target that the President wanted to achieve in deficit reduction which is \$140 billion in 1997.

That is what he said was the target, and that is what we have achieved here. So that story, very frankly, is not correct. We have achieved the targets that we have been after. It does cover the investments we want to make, and it does achieve it in real at the terms.

Mr. SMITH OF TEXAS. I hope you are right. We will have to wait and see.

Mr. PANETTA. Absolutely. That is why this document is provided to you to be able to say the figures.

Mr. SMITH OF TEXAS. Let me ask you another question.

The President proposed an increase in income taxes, business taxes, social security taxes, energy taxes, and we all know that Congress does think some changes are going to be made. Because of public outcry, for example, energy taxes are cut back or social security taxes are cut back.

How is the administration going to make up the shortfall if the plan is not approved as proposed? Are you going make it up with more taxes, more cuts in spending? How are you going to make up the difference?

Mr. PANETTA. I think that is a question for you to answer. We would not recommend doing that. We would recommend and we support the plan as presented to the Congress.

Mr. SMITH OF TEXAS. Do you think it is unrealistic for the administration to expect the plan not to be changed?

Mr. PANETTA. We assume there are going to be some shifts, and we will negotiate, obviously, with Members in terms of the mix. But the overall goals that we have set out here we want to achieve which are, basically, to make the investments that the President is interested in making and to make the deficit reductions.

Mr. SMITH OF TEXAS. My question is, if you don't achieve the goal in the way you propose and there is a shortfall because Congress does not approve the taxes you want or the spending cuts you want, how are you going to make up that shortfall? Do you still maintain the goal is the same, the goal is unchangeable?

Mr. PANETTA. We would argue that the Congress has to do it in a budget neutral basis which means that if, in fact, you cut, if you decide that there should be more spending or you can't accept some of the spending cuts or if you decide that these taxes are not acceptable, then you ought to replace them with either additional spending cuts or revenues.

Mr. SMITH OF TEXAS. So under no circumstances might anything be undertaken by Congress that would make you change your goal of \$140 billion reduction in the deficit?

Mr. PANETTA. No, sir.

Mr. SMITH OF TEXAS. Thank you, Mr. Chairman.

Chairman SABO. Mr. Mollohan.

Mr. MOLLOHAN. Thank you, Mr. Chairman.

I would like to join my colleagues in welcoming you back in this capacity. I would like to commend the administration—you and the administration—for the hard work in getting your hands dirty on this paperwork, and it is obvious the President has gone through the budget line by line, and I think that is unprecedented. And you have been very responsive. I think it is a very open process given the time frame in which you have done this and your willingness to take counsel as the process moves forward.

One of the toughest things you have had to do, obviously, was to deal with the energy tax. I know there were a lot of proposals out there. I am personally grateful we did not get a carbon tax as you might imagine. The Btu tax is probably as fair as any you could come up with.

I would point out and ask you, with regard to the Btu tax, is that a straight Btu tax or a tax with a formula to equalize the treatment of coal and gas?

Mr. PANETTA. It is a modified Btu that basically does allow that balance between natural gas and oil.

Mr. MOLLOHAN. Takes into consideration the inefficiency of getting Btus out of coal?

Mr. PANETTA. Yes.

Mr. MOLLOHAN. There was a question asked about the 2½ cents gasoline tax and whether the extension was going to the general fund.

Mr. PANETTA. At this point the 2½ cents continues in the general fund.

But I have to say to you that at some point we will face the issue, assuming full funding of the highway bill, that there will be at some point an impact on the trust fund, we estimate probably within 2 years, in which we will have to evaluate whether or not we put additional funds into the trust fund in order to sustain the level of obligations that we have under the highway bill.

So I would assume that at some point we will have to determine whether we take that 2½ cents and return it to the trust fund, in which event we would have to make up that difference for purposes of meeting our targets in this plan.

Mr. MOLLOHAN. How long is the extension proposed under your proposal?

Mr. PANETTA. We extend it permanently.

Mr. MOLLOHAN. Permanent extension.

There is some question raised about the spending for highways and adding the additional \$2.9 billion to spending to fully fund ISTEA.

Mr. PANETTA. Yes.

Mr. MOLLOHAN. Is that intended to be fully funded on a monthly or yearly basis? My question is, before this would be applicable in fiscal 1993, 6 months of the year would be over and you would be really having a disproportional funding in the last months and you would get some cyclical funding with very high amounts in the last 6 months of this year. Has that been taken into account?

Mr. PANETTA. Yes. We wanted to make sure that we wouldn't have any distortions in the way that the funds were obligated so

what we are trying to do is to basically ensure that those projects that are out there and ready to move are the ones that would be targeted by the initial obligations and that we don't suddenly just move it out there for projects that are going to—probably fall in line for 1994 and 1995 in the outyears. So it is balanced on that basis.

Mr. MOLLOHAN. But it is intended to fund ISTEA, is that correct?

Mr. PANETTA. Yes.

Mr. MOLLOHAN. Last year Mr. Whitten introduced an economic stimulus package which focused highway spending on the I3R program which spends out I believe more quickly than the ISTEA funding would.

Mr. PANETTA. Yes.

Mr. MOLLOHAN. The President's proposal fully funds long-term ISTEA. Would the administration support the Appropriations Committee targeting the funds directly to the I3R program rather than ISTEA?

Mr. PANETTA. Well, obviously, that needs to be discussed. I think our primary concern is this. We want to move the funds as quickly as possible into projects that are ready to break ground because that is really the only reason to do this. And the faster those projects can take place, then, obviously, the more important it becomes to focus on those.

So, obviously, we would be open to discussions on this in terms of targeting. We do have a commitment to fully fund ISTEA. We have it in the outyears. We would like to stick to that commitment, but, obviously, we want to make sure that these jobs happen.

Mr. MOLLOHAN. Not only is the money quickly spent out because it is jobs creation, but there is a fairness issue because money would be more equitably distributed across the country and maybe even to areas that are experiencing difficult economic conditions, disproportionate to the rest of the Nation, and they would benefit if it were spent out under the I3R program.

Finally, Leon, I know the President's commitment and certainly your commitment to improving America's competitiveness. That was expressed by the President eloquently on numerous occasions during the campaign and since his election. You certainly supported that during your service here in the Congress.

What in this package—just to give you an opportunity to review this—what in this package addresses our economic competitiveness challenges, promotes technology development and, very importantly, increases industries' access to new technologies in the manufacturing process?

Mr. PANETTA. There is a very significant technology piece that—the Vice President, obviously, has a very deep belief that this Nation needs to do more in terms of technology. And so, as a consequence, as we sat at the table and were working through the investment program, he strongly advocated that we do a major technology piece here because he felt that whatever we do in that area is going to have tremendous implications in terms of the private sector, but it will also put this country on the cutting edge of the kind of efforts that we need to make for the future.

What we did here in technology—the largest when you look at the overall program in terms of investments for Rebuild America,

outside of the—of all of the areas in Rebuild America, technology gets the biggest amount of funding, almost \$17 billion over 4 years. It is largely targeted to the National Science Foundation, science, engineering and technology grants, high performance computing, extension of research and development tax credits.

There is funding here for highways, for ISTEA, for a whole series of new technological advances.

This is, I think, without question probably the most significant package of investments in technological areas that we have seen in the Congress. I think it is important. I have heard Bob Walker on the Republican side talk about the importance of technology investments, and this certainly is that kind of program.

Mr. MOLLOHAN. Thank you, Leon.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Cox.

Mr. Cox. Thank you, Mr. Chairman.

I would like to simply make a request of the Director, and that is, if it is possible for OMB to do this for us, that the 150 or so proposed spending cuts be listed orderly, numbered 1 through 150 or whatever, and that there be a short prose description of what precisely is going to be cut.

Mr. PANETTA. Do you have the book?

Mr. Cox. In fact, I got up early this morning and read this. And I appreciate that there is a good deal of information here. I have read it, digested it to the extent that it is possible in a short period of time. I know what is in here. Let me tell you—

Mr. PANETTA. Let me draw your attention to the back tables on pages 122, 123, 124, and from there on basically list out the specific program areas.

Mr. Cox. I have been through those, and there is something here that might even allow some interpolation to get to where I want to go, but I think it would be easier if OMB could do this for us.

Mr. PANETTA. Sure.

Mr. Cox. For example, on page 172 of the prose description of a simple change proposed in USDA the Economic Research Service says that much of USDA's economic research duplicates that of other USDA bureaus. This proposed reform would result in reduced duplication. The estimated savings are \$17 million.

It doesn't tell us what the reform is. Are we cutting people? What are we doing?

What I am interested in—by the way, that doesn't occur until 1997, it appears, in any case. But it is difficult to tell with each of the cuts what is happening.

So I guess what I am requesting—

Mr. PANETTA. Basically a reduced level of funding, but we can make it specific.

Mr. Cox. You know the answers and we might know, but it would be very easy to look at a list of 1 through 150—I am sure the reporters would, too, what will be cut—but list actual 1992 outlays for the program, the projected 1993 outlays and proposed 1994 outlays. Then we will have hard numbers to look at.

Mr. PANETTA. Great.

Mr. Cox. I appreciate that very much.

[The information follows:]

The staff of the Budget and Appropriations Committees were provided computer tapes on February 18 that displayed all of the specific proposals organized by budget function and by executive branch agency. These computer tapes provided outlay effects for all of the President's proposals for 1993 through 1998. *A Vision of Change for America* provided narrative explanations of the proposals. Additional detail, including the 1992 actual spending and absolute funding levels for 1993 through 1998 will be provided to the Congress in the President's FY 1994 Budget. The 1994 Budget will be transmitted to the Congress during early April.

Mr. Cox. Second, with respect to scoring and with respect to the line that we have been looking at here that leads to a cliff, the President last night drew some titters from the assembled group in the Chamber when he referred to CBO being impartial and implied that CBO was accurate.

It may be true on a relative basis that CBO has been better or worse than OMB, but, comparing CBO and OMB together with the rest of the world, I think the track record is a little less rosy. In 1989, CBO estimated that the deficit was going to be, for fiscal year 1990, \$140 billion. It turned out to be \$269 billion. That was a 92 percent error.

In 1990, CBO estimated the deficit for fiscal year 1991, which, remember, started just a few months after the report was delivered, was going to be \$138 billion. It turned out to be \$269.5 billion. That was a 95 percent error.

The estimates for 1992 turned out to be respectively, 115 percent and 115 percent estimating errors.

Now that we are looking at fiscal 1993, Dr. Reischauer recently told us the deficit will be 140 percent larger than he estimated just a few years ago. Even the 1989 assumptions he made were rosier, that we would—pardon, the 1989 assumptions were tougher—higher inflation, lower GDP than is the case now. So I am concerned that we are putting a lot of stock in CBO's projections of what these outyears are going to be like.

I would like to associate myself with the comments of every single one of the Members who said there is nothing more important than this year and next year because we have control over that. We don't know, for example, that the Dow Jones is down 36 points now, that we might not have a repeat as a result of some—what we are doing here—of what we saw in October 1987, with the stock market. A lot of things can happen in the world that will take us off track. So I really hope we can use some honest numbers.

And, finally, on that point, the President said in his national televised address on Monday and again last night that he has cut the White House staff 25 percent. Now, I have yet to see all the rest of the numbers. I realize that cutting the White House 25 percent is neither material nor should it concern this committee with its separate oversight jurisdiction. There are other committees of Congress that ought to look at the White House budget more particularly.

But when the President harps on this and repeats it so often and when the number is false, it lets us worry about things that perhaps we shouldn't be worrying about.

I was traveling abroad and read the International Herald Tribune when they picked apart this 25 percent number. I came back and found The New York Times and Washington Post and USA

Today also picked apart this number. We are not talking about anything that has happened. We are talking about next year.

As you know, I worked two administrations back in the White House. I know how that staff is organized. I know about the detailees. And all we are talking about doing with the lion's share of this \$10 million figure is sending people back to their own home base and stay on the payroll with no savings to taxpayers. Counting that as savings is misleading.

I am sure the President believes this is true because he has not focused on this level of detail. But he shouldn't be representing such things to the American people. The fact is that it appears that more than 50 people are going to be added to the White House staff this year. I get concerned about that.

I get concerned when I read the Wall Street Journal this morning saying that the President is going forward with plans to build a jogging track at the White House when we are all being asked to sacrifice, and the price will be paid by the FOBs—Friends of Bill—who, I assume, will have influence at a time we are bashing lobbyists, when we are selling to the American people that they have to sacrifice. This is going to cause us some trouble.

We need real numbers. That is why I would appreciate getting the list that I talked about. And I really don't want to hear this 25 percent cut in the White House staff again if it isn't true.

Mr. PANETTA. Well, it is true. I can assure you it is true. It isn't just detailees. It is members of the staff. We eliminated, obviously, the whole drug czar staff, a big chunk of the staff that was there. We have eliminated some of the other positions that were part of the other policy areas that were developed there. We got rid of the CEQ, the Environmental Council that had been there, and it has been restructured. All of those have involved staff savings in terms of the White House staff.

Obviously, some of these are projected over a period, but I can assure you that that 25 percent cut is real and all you need to do is talk to the people who, in fact, have lost their positions as a consequence of that.

Mr. Cox. The line item for the executive office of the President for fiscal year 1992 is \$190 million. Twenty-five percent would be \$47 million. We are talking about \$10 million, and the \$10 million is comprised of things that won't happen until later, and some won't happen at all.

Isn't it true that some detailees are going back to their agencies and will continue to hold their jobs?

Mr. PANETTA. People, not money that he pledged to reduce, which is a 25 percent reduction in the number of staff in the White House. That is what he is achieving. Make no mistake about it, please. That is real and those decisions have been made on the basis of staff people assigned to the White House, not detailees. I understand that game has been played in the past, but that was not the case here with regard to that reduction.

On the question of—

Mr. Cox. How many employees have been cut from the White House staff then?

Mr. PANETTA. Let me get you the specific number on that, but there is—we have a specific list of those that were reduced as a result of that.

[The information follows:]

We are currently preparing the details that underlie the President's FY 1994 budget, which will be presented to the Congress in early April. The specific number of employees cut from the White House staff will be listed in the detailed FY 1994 budget data.

Mr. Cox. Am I hearing that the undertaking, in any case, is not to cut spending by 25 percent on the White House staff but only to cut positions?

Mr. PANETTA. To cut the number of staff by 25 percent which saves you, I believe, something like \$9 million. It is not anything to sneeze at.

Mr. Cox. Nine million dollars divided by \$190 million doesn't get me to 25 percent. I yield back. We ought to follow up on this.

Mr. PANETTA. Again, it is the number of staff. It is not the budget. It is the number of staff, and it has been achieved. I will be happy to get you the specifics on the staff people.

Let me mention the CBO because that is a very important point. CBO and OMB have obviously tried to project where the economy is going, and it is not always easy to do. If you line up the Blue Chip and OMB and CBO—I think the President is basically correct that over the last 12 years or so CBO has done a pretty good job of trying to get within the ball park of where we really were. But the fact is all of them because of conditions in the economy have not been very accurate.

In this instance—in this instance, the reason we selected CBO—I mean, I think you would have a basis for complaint on CBO if they were more optimistic about where the economy was going. But in this instance we selected CBO because they are much more pessimistic about where the economy is going. This is not a rosy scenario.

The problem we have seen in past budgets is that OMB would basically project a very rosy scenario about where the economy was going, and you could show the deficit based on that as dropping down dramatically.

We have decided we would have to get away from that kind of approach here. We have got to accept the most pessimistic assumption about where the economy is going and build our deficit numbers off that. That is why we used the CBO numbers here. If they were more optimistic I think you would have a basis for complaint, but they are the most pessimistic numbers out there. Even Blue Chip combined with our own CEA, Council of Economic Advisors, indicates a more optimistic track in terms of where the economy is going.

Mr. Cox. I agree with you. CBO is willing to be pessimistic about the deficit based on the status quo.

But what concerns me is that systematically over time the CBO has failed to take into account the dynamic effects on the economy of tax increases. CBO told us that the 1990 budget agreement was going to help. It hurt the economy.

And, of course, the economy here is very much sensitive to the kind of tax increases that we are talking about. It isn't totally

beyond the pale to think the stock market might not react when we systematically devalue the capital stock of America by reducing after-tax return on the assets all at once, which is what we are talking about, big increases in taxes both on corporations and their securities and on individuals.

Chairman SABO. We have been more than generous.

One final question from our friend from Texas, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

Leon, welcome. The first thing I want to say is, this is my fifteenth year in the Congress. This is the most honest budget submitted by an administration in the 15 years that I have been here, and I commend you for that.

The numbers are there. We can fuss about the details and all, but when you compare it to all previous endeavors, considering the time frame under which you have worked, you have done a good job, and I appreciate that.

In answer to my colleague from California asking about the 150 cuts, I can tell you where 23 of them are. They are in agriculture. That is 15 percent of the itemized 150 cuts. We thought you remembered where you came from a little bit, Leon, but you have not shown partiality to the Agriculture Committee at all in that endeavor.

I have added up the cuts, and there are \$8 billion in the Agriculture Department. That is 6.4 percent of the total amount of domestic discretionary cuts that you were able to find. You have asked a function accounting for 1.8 percent of domestic spending to take 6.4 percent of the cuts. But I will not make an argument to reduce that cut by one penny.

We accept the challenge the President gave us last night to take this as the starting point and to work on it. What I will be arguing with my colleagues on this committee and with you is to ask the other functions of the budget to do at least as well as the agriculture function has done, not only in what you ask us to do this year but based on what we have, in fact, done over the last 6 years.

We talk about entitlements. Out of the top 12 entitlements the only one that has taken a cut over the last 6 years has been agriculture and yet we are the whipping boy of everybody that comes along. I don't say that asking for favoritism, but as we look at additional cuts we ought to be able to ask others to do as much, as agriculture.

Another thing, I appreciated was your answer to the Chairman about budget enforcement. I still think what you—with some of the rest of us helping you—put together last year as a budget enforcement package was excellent. We need to put forth something that is going to be even better in the upcoming years than what was proposed last year since we didn't get too far. We look forward to working with you on that.

But now I want to be sure what I have heard you say today. I thought at one time I heard you say the stimulus package would be a supplemental, that it would be declared an emergency and, therefore, would not be scored. At another time I thought I heard you say the stimulus investment package was paid for.

Mr. PANETTA. Let me——

Mr. STENHOLM. It can't be both ways. Which is it?

Mr. PANETTA. The stimulus package is within the overall caps established for 1993 because it does not exceed the surplus that we were able to achieve last year largely through defense savings. So the answer to your question is that the stimulus—if we enact the stimulus it will not exceed the caps in the budget agreement.

The reason you have to designate it as an emergency is because under the rules that apply for 1993 you cannot use those funds because they are defense funds and transfer them to the domestic side of the budget unless you move to breach the walls or declare it an emergency. In our view, rather than try to enact a breach of the walls that it would be preferable to have it designated as an emergency because we are trying to deal with problems within the economy.

Mr. STENHOLM. It goes without saying that is going to give some of us a little bit of a problem in light of the battles we successfully fought last year. We would prefer the stimulus package, if we must have one, be paid for honestly.

I have just one last question. As I have done my arithmetic roughly, it looks like we have gross spending cuts of \$238 billion. You say \$246. We are not going to worry about that small difference. But the net spending cuts are \$129 billion because we have spending increases of \$109 billion versus the \$238 billion that we cut.

On the revenue side, we have a gross tax increase over the period of \$240 billion with tax benefits in the stimulus package of \$59 billion or a net of \$207 billion in tax increases. It looks to me like that is taxes of \$1.60 for each \$1 of spending cuts.

Mr. PANETTA. Yes.

Mr. STENHOLM. I have heard you say it is one to one. Your staff furnished me additional information which I have not had time to fully look at. I understand the investment, the interest savings, et cetera. Perhaps my arithmetic is not precisely right, but how far wrong am I with those numbers? Or why am I wrong in the way I added it up?

Mr. PANETTA. I think, again, as you look at the totals in the 1994 to 1997 period it basically works out to one to one between revenues and spending cuts. As you look beyond 1997—actually if you looked individually at 1997 itself, the trend reverses itself. We begin to get more spending savings as opposed to revenues because those are ratcheting in at that point. So that in 1997 it is more like 60 to 40 but if you look at the overall number for 1994 to 1997 it is mainly a dollar for dollar.

Our hope is if you look at the full range of savings that we would incorporate here I think by near the end of the decade you really do have almost two to one in favor of spending over revenues.

Mr. STENHOLM. That is the key, but it also reinforces to a significant number of Members on this side of the aisle that we must follow the budget enforcement mechanism which makes certain we get reasonable cuts 1 year to 1 year to 1 year. Whatever is going to happen—investment, stimulus and spending cuts—we must score it honestly each year.

Also, returning to a previous discussion, you know that some of us who support the balanced budget constitutional amendment have never ever suggested that you balance the budget with that

alone. You do it in a process like the President has begun. You have brought a plan to us today as a first step. We must improve on it. But a constitutional amendment will guarantee that over a period of time, whether it is 8 or 10 years, we will balance the budget. Still we must take it 1 year at a time, 1 month at a time, 1 quarter at a time.

Thank you.

Mr. PANETTA. Charlie, I have a great deal of respect for your integrity on that issue because you have fought that battle, but I have never questioned the fact that when it comes to saying how you would do it that you would be there, and that is what I need from everyone right now. I need everybody to say how do we get there.

And that is the challenge that I think we are facing right now, and I hope that whether we are Republicans or Democrats we can try to work as partners in this effort. It is going to be a massive effort to try to reach these goals.

Mr. STENHOLM. Mr. Chairman, to you and Mr. Panetta, I look forward to working with you in that spirit. Thank you.

Chairman SABO. Excuse me. I had to modify—two members want to make brief statements for the record, Mr. Allard and then Mr. Blackwell.

Mr. ALLARD. Thank you, Mr. Chairman.

Chairman SABO. Unless you feel moved you do not have to respond.

Mr. PANETTA. All right.

Mr. ALLARD. I would hope he would respond, Mr. Chairman.

But I would like to bring up an area that nobody has brought up in this committee at this particular point in time.

The dialogue that we will raise your taxes and we will balance the budget is not new dialogue to the American people. We have heard that before. Revenues never hold up as to what was anticipated with the tax increase.

There is just one basic economic principle that comes into play, that if you increase the cost of goods and services you are going to decrease the amount that people will buy. And I don't see in your plan where you have taken into consideration a decrease in consumption because there is going to be an increase in the cost of goods and services.

I am wondering if you did try and make an effort to extrapolate out some idea of how that might impact the goods and services in cost and how that might decrease consumption and if you did reflect that in your revenue pictures.

Mr. PANETTA. We have to again evaluate the consequences of both deficit reduction and tax increases in terms of their impact in the economy.

There was concern that when you are dealing with an economy that has some fundamental weaknesses in it what is going to be the impact of whether you do a lot of spending reductions—which also costs jobs by the way. Any time you do major spending reductions, the argument on the space station or super collider or whether you are talking about the defense budget, the bottom line argument is jobs. So when you do spending cuts it involves jobs. When

you do tax increases it has an impact on jobs as well. So the question was how to balance that in the context of a weak economy.

If you don't do anything, though, the problem is this line on the deficit continues to escalate, and it continues to have that much worse of an impact in the outyears as far as our resources, interest rates, availability of savings, and investment.

So the question then becomes how do you balance all of this? Our view was that as you gradually build in—first of all, you do your stimulus package in order to try to ensure that the recovery will take place so that begins to move your economy forward. At the same time, you do the investments to guarantee that you basically build on that recovery, providing the tax incentives to the private sector as well as providing targeted investments in technology infrastructure.

You then work in your deficit reduction and move those numbers in over the later period. The feeling was that if you can ratchet it in on that basis that the consequences on the tax side will not have an adverse impact on the kind of path we are looking at right here in terms of both growth in the economy as well as the kind of deficit targets we were after.

Mr. ALLARD. I guess I would have to disagree with you that spending cuts would always result in having a negative impact on consumption. But certainly I think taxes do.

I looked at your program here for 1994, and I see that we have revenue increases—that is up front. We have that happening first. Then we have some of these other stimulants coming in later. So I just think it is going to be a real factor in your figures. And you have talked to this committee of how you have tried to be honest in those figures that you put together, and I just don't see any effort to figure in how that will have an impact on your revenues.

Certainly, every merchant on Main Street goes through that process when he is marketing his goods. He is saying, well, I have the price of this good and I take a certain percent of profit how will it affect sales and total revenue in my business?

I am not sure we have done that.

Mr. PANETTA. I understand what you are saying, but I also would draw your attention to the fact that, again, 70 percent of the burden in this package is basically targeted to those in the upper income levels. And I have to say that I think it is my view that those are the individuals that can contribute the most in terms of the overall challenge we face.

Mr. ALLARD. I would like to interrupt you there. The energy tax—that is everybody.

Mr. PANETTA. I understand. Seventy percent is in—on the upper income brackets.

Mr. ALLARD. If you are talking about producing glass, producing steel, that is at the very fundamental bottom exchange of goods, and that will apply as it goes through. Indirectly, it will impact a lot of people.

I have to look at Colorado, for example. Not only are we an energy resource rich state but we have a lot of rural areas that consume a lot of energy in the rural areas, and they will be disproportionately impacted. But I think that that energy tax is going to impact everybody.

Thank you, Mr. Chairman.

Mr. PANETTA. No, it will. But I also think we have to look beyond the issue of just its impact and look at the policy issues involved with energy in this country.

We cannot continue—we just cannot continue our current energy consumption, our current energy policies and expect that we are going to secure our future. We are dependent in large measure on Middle Eastern oil. In terms of our country we are consuming a great deal of energy. We have got to modify our policies not only for our environment but also in terms of just our consumption.

So there are some fundamental policy issues that are at stake here that go beyond just the question of taxes. It goes to the heart of the question of how we change our consumption of energy.

Mr. ALLARD. I recognize the President's remarks—his intentions in the energy tax was to decrease consumption, and he took that into account on his environmental argument. But I am not sure he took it into account on his revenue argument.

Chairman SABO. Mr. Blackwell for a statement.

Mr. BLACKWELL. First, I would like to apologize for going in and out of these meetings. Since I have been here, we have conflicts, and it is required that I be in other places, and it just can not be helped.

But I also would like to say that it amazes me how we hear this discussion and these debates and we act as though everything is all right in the street. We have people—when you talk about the airlines, they are bankrupt. You talk about the shipping industry, bankrupt. You talk about the trucking industry, bankrupt. Every business in this country is having a problem, nothing but gloom and doom.

Trade deficit, we have Japan angry because we say we have to have a level playing field.

The European community is threatening us because we said we have to have a level playing field. We are subsidizing foreign investors, subsidizing and moving jobs to foreign countries, and we hear nothing substantive from the people who are now telling us that we have to cut. The American people are not stupid.

I am a new kid on this block, but I am not a new kid in politics. I was Chairman of the Finance Committee in Philadelphia for 10 years. I watched as they took money from us, and took our jobs from us. We raised taxes 19 times and couldn't catch up to what was happening to us. So, the American people are saying, we want a change. That is what the President said last night. He gave us a plan. I intend to support it.

I think sometimes we have elected 45 Presidents. I listened to the people on the committee before he brought in his message. You would have thought he had already brought it in because they started tearing it apart. I was on a talk show this morning, and people called in. The American people are ready for what he wants to do.

I don't know whether the politicians are ready. The politicians want business as usual. We took a pay raise in January. I didn't hear anyone cry about not taking a pay raise. Why not give back the pay raise? Let's cut salaries and wages if we want to cut. Let's cut.

The American people are sleeping in subways. My wife will feed people in subways tonight because they have no jobs—not because they are drug addicts, not because they are bad people, but because they have no jobs. We have shifted our jobs to Korea and Japan. While they tell us we can't sell rice in their markets, they flood our markets. We complain that we are bashing Japan. We are bashing the American worker. You want to get rid of the deficit? Put Americans back to work.

We use this theory that we have to let people in Mexico make products because it will allow us to consume in a cheaper manner. Where is it written that my neighbor has a right to buy a cheaper bike if it puts me out of work? There are workers making \$2 an hour, with no benefits, in Mexico, what is right about workers making \$20 an hour in America having to compete with these workers? That is what is wrong with this country.

The fact is, we forgot about the American people. We had a big change in this election. Thank God, because I went up 111 slots. I like that because it gave me a little seniority. I can now tell the Chairman, let me say something, and he says, all right, go ahead. When I didn't have the seniority, he would tell me no. Keep doing what you are doing because we have to straighten this economy out.

Americans should not live in subways or on the streets. Vietnam veterans should have jobs. That is not happening. These people want cuts, we should tell them, you want to cut, tell us where? You have got to tell the American people where to cut, and see if the American people want to cut where they want to cut.

I believe the President is trying to straighten the country out and give it back to America, and Mr. Panetta, you are going to help him. I am with you.

That was short, Mr. Chairman.

[The prepared statement of Hon. Lucien E. Blackwell follows:]

PREPARED STATEMENT OF HON. LUCIEN E. BLACKWELL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA

Last night the President gave hope to America as he outlined a comprehensive economic recovery package. I am especially pleased with the President's plan because it will put people to work at livable wages.

The goal of President Clinton's comprehensive economic recovery package is to provide a higher standard of living for all Americans.

Under the plan, over 8 million new jobs will be created. Incomes for working Americans will be increased. There will be increased investment in America's infrastructure, in technology, and in people. In addition, over the long-term, the deficit will be reduced.

Over the past twelve years, the deficit has gone up, while investment in the American people has gone down. Under President Clinton's plan, investment will go up, and the deficit will go down.

Now is the time for each of us, regardless of party or politics to support the President for the good of the country.

The plan has three basic parts: an immediate stimulus program of \$30 billion to spark the economy and bring some relief to the 9 million unemployed Americans; a long-term investment plan that redirects spending priorities, emphasizing job creation, education and training and investment in our children; and a deficit reduction plan designed to guarantee long-term economic growth.

Under the immediate stimulus program, 500,000 jobs will be produced by 1994, through investments in traditional as well as future infrastructure programs.

I am particularly anxious for Congress to get started on this part of the package, because I serve as Vice Chair of the Subcommittee on Economic Development of the

House Public Works Committee. Our subcommittee has primary jurisdiction in this area.

The immediate stimulus package includes incentives that will spur private investment. Among those incentives are a tax credit for small businesses that invest in growth, and a tax credit for firms that invest in research.

And, importantly, the stimulus package will help to get our young people off the streets and provide meaningful opportunities to them. President Clinton will accomplish this by expanding the summer jobs program to finance 638,000 new summer jobs.

The President has called for an attractive and ambitious long-term investment plan. Under the plan, a permanent investment tax credit is proposed.

This plan will also invest in education and training so that the United States can be more competitive in the global market. By so doing, we will promote lifelong learning and earning, thus teaching men and women how to fish rather than merely giving them fish.

Also under the long-term investment component, the President proposes to expand the earned income tax credit and hold to his commitment that no working parent will be forced to watch his or her family live in poverty, stand in soup lines and sleep in subway stations. If you work, under the Clinton plan, there will be no reason to be hungry and homeless.

I am especially impressed by the part of the plan that invests in children and seeks to safeguard the earth for their future. Money for head start and vaccinations is provided. And, the WIC program is fully funded so that our children will grow up healthy.

Of course, short-term stimulus and long-term investment is meaningless without a credible deficit reduction plan. President Clinton has such a plan that will guarantee long-term economic growth.

The President's plan for deficit reduction is the largest in history. It will result in a \$500 billion gross deficit reduction over the next four years.

This historic deficit reduction is achieved through more than 150 specific cuts in government programs, and a revenue plan that restores fairness to the tax code. The President will ask those who benefitted most from the tax cuts in the 1980s to pay their fair share.

Under the deficit reduction plan, we can expect a drop in interest rates, a rise in consumer confidence and renewed economic activity.

Through this plan, businesses will be able to afford loans to expand, middle class people will be able to afford to buy homes again, consumers will be able to afford cars and students will be able to afford college.

This plan will get the economy going right away and keep it going in the future. The plan represents fundamental change.

The plan will cut the fat out of government. The President has taken the lead on this, cutting the White House staff by 25 percent. The plan will focus on special interests to pay their fair share. Corporate taxes will be raised to 36 percent, and loopholes will be eliminated. And, the plan focuses on the rich. Over 70 percent of the proposed new revenue will come from those who earn \$100,000 or more. Families who earn less than \$30,000 annually will not be affected by the revenue raising part of the plan.

The energy tax proposed by the President will conserve resources, decrease dependence on foreign oil and help to protect our environment.

The President has offered a bold, exciting, visionary plan. He has asked for our support and for a united America. As he noted, "we are all in this together." The plan deserves our support.

Chairman SABO. Let me finish by saying that, over the years, I also admired the degree that you worked incredibly hard on most things that most of us didn't really think were going anyplace. Now you have the opportunity to bring that incredible energy and ability to what is real. And we have a unique opportunity in this session of Congress. We have a President who is aggressively seeking a program, his vision of the future. The program is real.

I am convinced that if we pass the essence of this program, the country is going to be much better off. If we can improve it, fine, but if we wander off and simply end up in the wilderness, then we have lost a unique opportunity in the history of the country. I think the problems we face economically in this country are im-

mense and to continue on the old process will lead us nowhere. I think there is a great opportunity here.

We speak of so many of these things as if it were exact science. It is not. I expect you put any two of us in a room, we would come to somewhat varying conclusions. One of the unique roles the President plays is that he can focus the attention of the country on a problem and present a solution to us, he can try and steer us in that direction.

I think this President has done an incredible job with your help and I and this committee look forward to working with you. I think you are steering us in the right direction and I hope we have the capacity and discipline to move in that direction with you and the President.

Thank you.

Mr. PANETTA. Thank you very much, Mr. Chairman.

[Whereupon, at 2:05 p.m., the committee was adjourned.]

[Additional material submitted for the record follows.]

PREPARED STATEMENT OF HON. JERRY F. COSTELLO, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF ILLINOIS

Mr. Chairman, I am pleased to be here today to welcome back Director Panetta to this Committee. I look forward to his testimony today and I look forward to working closely with him and the Administration during the budget process.

The budget unveiled by the President last night makes major progress in addressing the nation's leading economic problems, most notably, the need for substantial deficit reduction. President Clinton deserves tremendous credit for looking at the long-term economic problems of this country and realizing that the budget deficit is the key to the future. This economic package represents the first real, honest attempt in twelve years by a President to address the \$300 billion federal budget deficit.

This economic package will be of immediate benefit to Southwestern and Southern Illinois, in terms of putting people to work and improving transportation in our region.

I am looking forward to hearing Director Panetta's statement today. And I look forward to reviewing the President's detailed budget presentation next month.

QUESTIONS SUBMITTED BY HON. BART GORDON, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF TENNESSEE, TO HON. LEON E. PANETTA, DIRECTOR, OFFICE OF MAN-
AGEMENT AND BUDGET, AND RESPONSES TO SAME

Question. As the GAO recently emphasized, "the inventory of known problems in the Department's administration of guaranteed student loans raises questions about its ability to adequately manage a direct lending program. The Department needs accurate financial and information management systems for it to not only manage the guaranteed loan program, but to properly implement the [direct loan] demonstration program." What steps would the Administration take to address these problems at the Department, and can we have confidence that management and oversight will be improved *before* taxpayer dollars are invested in this program? What additional safeguards will be instituted to ensure program integrity?

Response. Legislation will be proposed to modify and expand the Federal Direct Loan Demonstration Program with the goal of implementing direct lending on a large scale during FY 1997. Systems will be designed to give the Federal Government greater financial control over Federal resources than is possible in the current system involving other financial intermediaries. Computer systems are being developed to help the Department oversee school performance as lenders. Alternate disbursement mechanisms will be devised for institutions with inadequate administrative capacity. Federal loan servicing and collection, including income contingent repayment for those with low incomes relative to their debt, should improve the current rate of recoveries from those in default.

Where appropriate, expertise of financial institutions and state agencies now participating in the Family Federal Education Loan Programs will be utilized to assist

the Department of Education in insuring the financial integrity of the guaranteed and direct lending programs.

Question. Would for-profit proprietary trade schools receive access to federal funds on the same basis as two-year and four-year degree-granting schools?

Response. As with any other school, to the extent they demonstrate the capacity to manage funds well and serve students appropriately, for-profit proprietary trade schools could participate in direct lending.

The Education Department is well aware that the Inspector General, the GAO, Congressional committees and others have documented many problems with proprietary institutions in the student loan programs. The design for the direct lending system will have systems and procedures to deal with problem schools. Federal capital will be protected, as will students.

Question. Will the Administration continue with the direct lending pilot program passed by Congress last session as part of the Higher Education Act, and will time be allocated to analyze the results of the pilot program before moving forward?

Response. Legislation will be proposed under which the direct lending pilot program will be modified and expanded with the goal of full implementation of direct lending in FY 1997. The Department of Education would not implement direct lending any faster than analysis indicates is appropriate to protect the Federal financial interest and efficient delivery of loan awards to students and parents.

Question. What will institution of a direct lending program mean for the staffing requirements of the Department, especially in terms of new auditors? What are the estimated costs for new staff and additional computer systems?

Response. Current estimates for increased Department of Education administrative costs due to the pilot and phase-in of direct lending are \$20 million in FY 1994 rising to \$391 million in FY 1998 for a total over the five years of \$871 million. These are highly preliminary estimates which will be refined as the implementation plan is developed. These estimates will be revised periodically as experience indicates the need.

The appropriate mix of new staff and contractor assistance has not yet been determined. The funding estimates include \$98 million for the computer systems development and maintenance required for direct lending, and \$659 million needed for operation of computer systems for loan servicing. There would be an estimated additional \$941 million needed between FY 1994 and 1998 for Federal costs associated with phasing out the Federal Family Education Loan Program.

ISBN 0-16-040691-9



